

NZAuASB Board Meeting Agenda

Thursday, 5 December 2024

9:00 am to 3:30 pm, Virtual. [Click here to join the meeting](#)

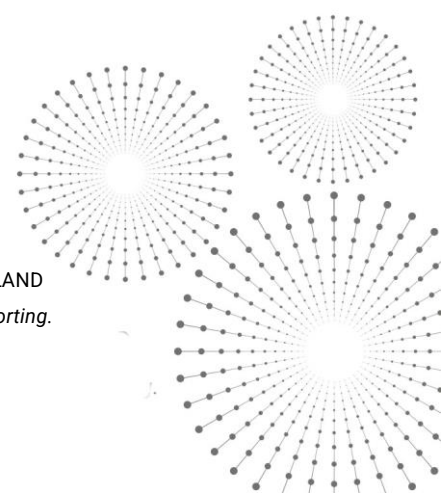
Apologies: None

Est.Time	Item	Topic	Objective		Page	Supplementary	
B: PUBLIC SESSION							
9:15am	1	<u>Board Management</u>					
	1.1	Action list	Approve	Paper	2		
	1.2	Chair's report	Note	Verbal			
	1.3	AUASB Update	Note	Verbal			
	1.4	CE update	Note	Verbal			
10am	2	<u>NZAuASB workplan</u>					
	2.1	NZAuASB work plan update	Consider	Paper	3		
	2.2	2024/25 Prioritisation schedule	Note	Paper		2	
	2.3	PIOB Public Interest Issues – IESBA	Note	Paper		5	
	2.4	PIOB Public Interest Issues – IAASB	Note	Paper		13	
10:45am	<i>Morning Tea</i>						
11:00am	3	<u>Review Standard on Service Performance Information</u>				LT	
	3.1	Summary paper	Note	Paper	7		
	3.2	NZ SRE 1	Approve	Paper	11		
	3.3	Explanation for Decisions Made	Approve	Paper	54		
	3.4	Signing Memorandum	Approve	Paper	62		
12pm	4	<u>Support for Service Performance Information reporting and assurance</u>				LT	
	4.1	Project plan summary paper	Consider	Paper	67		
12:45pm	<i>Lunch</i>						
1:30pm	5	<u>Going Concern</u>				SW	
	5.1	Update on IAASB project and interaction with the accounting standards	Note	Paper	74		
2:15pm	6	<u>GHG assurance</u>				AH	
	6.1	Summary paper	Note	Paper	91		
	6.2	Snapshot	Note	Paper	93		
	6.3	Navigating the GHG assurance report	Consider	Paper	Late		
	6.4	Scope 3 GHG emission disclosure and assurance	Consider	Paper	Late		

Next Meeting: In person
12 February, 154 Featherston Street

NZAuASB Action list

Meeting Arose	Board Action	Target Meeting	Status
Oct 2023	Continue to explore next steps on trust and confidence	Oct 2024	No next steps identified
June 2024	Consider how the Board can assist with the “how” delivery of engagement with outreach audiences	October 2024	Agenda item 2 explores the results of the stakeholder survey on engagement and possible next steps
June 2024	Consider implications of IFRS name change on the auditing standards	2026	Deferred until IFRS 18 is applicable.
Oct 2024	The FMA had raised a question relating to the applicability of reporting of key audit matters for entities that are pursuing an initial public offering. This matter has been resolved	Dec 2024	No action required.
N/A	Update on IAASB project to revise the interim review engagement standard for auditors. The XRB and AUASB staff will support this IAASB project	Dec 2024	Sharon Walker and Johanna Forster (AUASB staff) are working to develop a project plan for the IAASB to discuss at the March 2025 meeting with the aim of approval of a project plan in June 2025. This work is overseen by the IAASB staff and two IAASB members who are “sponsors” for the project. This is reflected on the prioritisation schedule. This is a valuable opportunity to shape the standard and further enhance our international relationships.
Ongoing	Refine the environmental scanning across the XRB	Dec 2024	New approach to environmental scanning actioned. Updates from the PIOB will be included when available.



AGENDA ITEM NO. 2.1
Meeting date: 5 December 2024
Subject: NZAuASB Work Plan
Date: 20 November 2024
Prepared By: Misha Pieters

Action Required

For Information Purposes Only

Objective

1. The objective is for the Board to:
 - a. Receive an update on progress to the six months to December for the XRB’s interim report;
 - b. Consider developing priorities for the XRB’s 2025-2030 statement of intent relative to assurance;
 - c. NOTE the supplementary papers including environmental scanning and DISCUSS the prioritisation schedule of the NZAuASB for 2024/25.

Progress for six months to December

2. The following reflects progress against the forecast in the [2024/25 statement of performance expectations](#):

2024/25 Forecast	Measures: Timing, Quality
Issue the following domestic and international (IAASB and IESBA) consultation documents to support the development of auditing and assurance standards: <ol style="list-style-type: none"> i. IAASB’s Narrow scope amendments to the auditing and assurance standards for use of experts ii. IESBA’s exposure draft related to collective investment vehicles iii. IESBA’s post implementation review of requirements related to non-compliance with laws and regulations 	<ol style="list-style-type: none"> i. April 2025 (Expect delay – project plan on December agenda) ii. June 2025 (Expect delay Unlikely to see ED in 2025 as indicated in IESBA SWP – current project page indicates a plan for approval in Q2 of 2025) iii. June 2025 – Expect delay - unclear what fact finding will be undertaken by June 2025 <p>Quality</p> <p>Stakeholders report a satisfaction rate of (at least) 75% with our consultation process and supporting information. Our consultation process considers the value of proposed standards and the implications of their benefits and costs.</p>
Issue the following domestic and international (IAASB and IESBA) Auditing and Assurance Standards: <ol style="list-style-type: none"> i. Review standard for service performance information ii. International Standard on Auditing (New Zealand) for Less Complex Entities iii. ISSA (NZ) 5000 General Requirements for Sustainability Assurance Engagements iv. Revised standard on going concern 	<ol style="list-style-type: none"> i. December 2024 (On track to be approved, may delay issue of standard until Jan/Feb) ii. June 2025 (On track – ED issued, pending feedback) iii. June 2025 (Strategy to be determined) iv. June 2025 (On track – IAASB approval expected Dec)

<p>v. Narrow scope revisions to the auditing and assurance standards for the revised public interest entity definition</p>	<p>v. June 2025 (On track – IAASB approval expected in Dec)</p> <p>vi. New Amendments to NZ SAE 1 Assurance over Greenhouse Gas Emissions responsive to challenges (Complete)</p>
<p>Support adoption and implementation by:</p> <p>Conducting engagements in the form of webinars, events, and forums and/or issuing guidance on:</p> <ul style="list-style-type: none"> i. The audit of service performance information ii. Assurance over Greenhouse Gas Emissions Disclosure iii. What is limited or reasonable assurance iv. The review of service performance information v. Going concern vi. Public interest entity requirements vii. Publishing an implementation update on NZ SAE 1 (to inform the temporary nature of the standard) 	<p>Timing</p> <ul style="list-style-type: none"> i. June 2025 (On track – outline to be agreed in December) ii. June 2025 (Ongoing – number of meetings and engagement to delay the scope of scope 3 GHG emissions – 1st guidance to be issued in December) iii. June 2025 (In progress) iv. June 2025 (In progress with assurance of SPI) v. June 2025 (Not yet started) vi. June 2025 (Commenced - Update included in October Need to Know webinar) vii. June 2025 (Snapshots being prepared monthly – to include in comms once we see mandatory assurance) <p>Quality</p> <p>Stakeholders report a satisfaction rate of (at least) 75% with XRB-hosted Audit and Assurance events and a satisfaction rate of (at least) 75% with Audit and Assurance implementation documents.</p> <p>(Need to Know webinar held in October attended by 80 attendees. Small number of respondents to survey reported a satisfaction score of 4 or 5 out of 5)</p>

Priorities for 2025-2030

3. The key priorities for audit and assurance are split into two:

- a. Financial Statements Audit and Review
- b. Mandatory and voluntary assurance over non-financial information

Financial statement audits

4. The XRB's strategy for the audit and review standards is to converge with international standards and to harmonise with the Australian standards. Updating the New Zealand auditing standards in line with best practice globally is in the public interest and is necessary to maintain the confidence and meet the needs of our stakeholders. However, the standards need to be tailored to the New Zealand environment, to assess the costs and benefits, given the wide range of entities that may be audited or reviewed, ranging from large listed companies, to public sector schools and small charities. Key projects for the years 2025-2030 will include:

- a. Fraud: given a persistent expectation gap, the gap between what users expect from an audit and what an audit delivers, this project aims to clarify the role and responsibilities of the auditor for fraud in the

audit of financial statements. The revisions aim to promote consistent behaviour by auditors in line with latest best practice and facilitate effective responses to risks of misstatement due to fraud. The revised standard is expected to be issued in 2025/2026 and will become applicable for periods beginning on or after December 2026. We aim to issue a revised standard in 2025/2026 and support adoption and implementation before the required application date.

- a. **Audit Evidence, Risk Response and Analytical Procedures:** this work stream will revise three standards to promote consistent best practice, enhance audit behaviour and facilitate effective responses to identified risks while strengthening the auditor's work on internal controls. The impact of technology on entities and for auditors is increasing. The revisions to the auditing standards will need to reflect emerging issues arising due to changes in technology. Changes to standards aim to encourage the use of technology to enhance quality engagements. We anticipate consulting on the costs and benefits of the international proposals in 2025/2026 and issuing revised standards in 2027.
 - b. **Materiality:** Materiality judgements impact the work effort of the auditor. This project aims to address challenges related to the determination and application of materiality and performance materiality by auditors in line with global best practice. This work may also provide input into separate projects to consider materiality for non-financial reporting (refer below). We will explore the issues in 2025, consult on the costs and benefits of international proposals in 2026 and finalise revisions to standards in 2027.
 - c. **Review engagements for interim financial statements:** differences in views persist on the roles and responsibilities of the auditor in an interim review engagement. This project seeks to clarify the notion of limited assurance performed by the auditor who also provides reasonable assurance over the full year financial statements. For example, the project will promote consistent and best practice relating to the auditors' responsibilities related to the use of the going concern basis of preparation for this limited review engagement. We will explore the issues in 2025, consult on the costs and benefits of international proposals in 2026 and finalise revisions to standards in 2027.
2. The XRB is exploring whether to adopt a separate new auditing standard for less complex entities. This project recognizes the growing concerns about the length and complexity of the auditing standards, especially given that many New Zealand entities that are required or that seek an audit of financial statements are relatively small and simple. i.e., not all audits are conducted for highly regulated FMC reporting entities. The XRB is committed to continuing to explore the scalability and proportionality of the auditing standards, as well as exploring other products, to enhance trust and confidence, that may be more suited for many of the smaller, less complex New Zealand entities, mindful of increasing cost pressures and a shrinking pool of auditors.

Mandatory and voluntary assurance over non-financial information

3. Currently reporting of service performance information and climate information is required for some entities and some or all of this information is required to be assured. Some entities will voluntarily seek assurance over what is reported.
4. There is a broad range of assurance practitioners assuring a wide range of non-financial information. There is a need to enable assurance practices to evolve and to support consistency in approach between a wider range of practitioner.

Our priority focus areas to respond to the changing environment and the diverse assurance needs and expectations of users, who may be wider than users of the financial statements, and the market for sustainability assurance, as reporting continues to evolve include:

- Provide guidance and other implementation support for auditing service performance information in the public sector and not-for-profit sectors.

- Provide ongoing guidance and implementation support for assurance over greenhouse gas emissions disclosures in light of ongoing challenges related to high degrees of uncertainty and estimation, and challenges related to assuring information that comes from the value chain as emerging reporting and assurance practices mature.
- Monitor developments and update the temporary approach to standard setting for GHG assurance as appropriate, to ensure we remain in line with global best practices.
- Engage with New Zealand stakeholders to better understand their assurance needs to ensure that the assurance standards are fit for purpose. We will continue to explore assurance practices with a wide range of assurance practitioners to promote learning from others and building capacity as assurance practices continue to evolve. We seek to clarify the demand for assurance over climate statements and other forms of non-financial reporting as reporting continues to expand, and the balance between the costs and benefits of meeting these assurance demands. This will inform the priority of developing voluntary assurance standards in line with global best practice, tailored appropriately for the New Zealand environment.
- Determine a strategy for alignment of sustainability assurance with international assurance standards, including both the performance standards and the ethical and independence standards for assurance practitioners.

Prioritisation schedule for 2024/25

5. The prioritisation schedule for 2024/25, attached at agenda item 2.2 has been updated since the October meeting.

Recommendation

6. We request feedback from the Board
 - a. On the updates to the prioritisation schedule.
 - b. Other issues impacting the work plan and priorities for the NZAuASB

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	3.1
Meeting date:	5 December 2024
Subject:	Review of Service Performance Information
Date:	21 November 2024
Prepared By:	Lisa Thomas

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to approve the following:
 - a. The review standard NZ SRE 1 *Review of Service Performance Information (NZ SRE 1)*
 - b. Explanation for Decisions Made
 - c. Signing Memorandum
 - d. Issue date of the standard

Background

2. At the October meeting, the NZAuASB discussed the detailed analysis of the feedback from the consultation of the exposure draft. The Board also discussed the interaction between this project, the ISA for LCE project and the ongoing work at the XRB to enhance the reporting and assurance of service performance information. The Board explored the timing of the finalising of the review standard and the broader work, emphasising the need for clear communication to separate the work streams.
3. In October, the Board agreed in principle to progress to approval at the December meeting. We emphasise that the application of NZ SRE 1 is to not-for-profit charities in tier 3 who are legally able to opt for a review engagement in lieu of an audit.
4. Agenda item 4.1 sets out the project plans for dealing with some of the implementation challenges. This work effort is focussed first on updating PBE FRS 48¹, the accounting standard that applies to Tier 1 and Tier 2 Not-for-profits. To date these plans will explore
5. Revisions to PBE FRS 48, exploring applicability to both public and not-for-profit sectors, identified targeted areas include:
 - i. clarifying the scope and purpose of the statement of service performance,
 - ii. defining terms such as outputs and outcomes,
 - iii. emphasising verifiability as a core principle and explaining what it means,
 - iv. requiring the disclosure of a basis of preparation,

¹ PBE FRS 48 *Service Performance Reporting*

- v. retaining the words “appropriate and meaningful” but explaining more what these words mean.
 - vi. sector specific guidance in authoritative appendices to address the different environments faced by the public and not-for-profits sectors.
 - b. Developing guidance for both preparers and assurance practitioners to promote consistent understanding where the standards intersect
 - c. Developing guidance for assurance practitioners on matters specific to the assurance requirements.
- 6. There are pros and cons to finalising NZ SRE 1 while the broader work continues.
 - a. Pros:
 - i. Continues to re-emphasise the importance of the two-step approach
 - ii. Enables consistency in approach for practitioners that undertake both audits and reviews
 - iii. Avoids the ongoing issue of applying two suites of standards to the engagement
 - b. Cons
- 7. If this work gives rise to amendments, revising a standard shortly after its issue may add costs and could damage the reputation of the XRB. We consider that this risk is low, given the work to date to understand the root causes of challenges and our project plans laid out. NZ SRE 1 is scoped for tier 3 entities. As per the project plan, the focus of the any amendments to the reporting requirements is on PBE FRS 48 and not the tier 3 reporting requirements. An ongoing question may be the application of ISRE (NZ) 2400² to service performance information, given that NZ SRE 1 applies in conjunction with ISRE (NZ) 2400. The Board explored these issues in October, and reaffirmed the need to approach this engagement holistically. Therefore this approach is unlikely to change. Such challenges might be addressed through guidance.

Matters to Consider

Finalisation of the standard

- 8. We are seeking approval of the standard. Tracked changes have been used to reflect changes from the **exposure draft** to the **final standard**. Comments have been used to detail changes from the October meeting.
- 9. The draft standard has been updated to reflect the decisions from the October meeting as follows:
 - a. **Appropriate and Meaningful:** The Board expressed support for the emphasis on the “two step” approach in the objective paragraph. (paragraph 7 (a)). The markups were supported by the Board at the October meeting.
 - b. Redrafted paragraph 7(a)(ii) to provide better clarity on the use of other procedures. These edits have been made since the October meeting.
 - c. **Other Procedures:** The board expressed support for the emphasis on professional judgement as when to use “other procedures”. (para. 7, 31, 50). Staff reflected that as professional judgement is required throughout an assurance engagement, it was more

² ISRE (NZ) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

appropriate to use “judged”. This is consistent with the language and emphasis used in ISRE (NZ) 2400.

- d. Underlying Records: Removed the staff requirement to obtain evidence that the SPI agrees or reconciles to the entity’s underlying service performance records that had been included as a proposed paragraph 39 as it is not relevant to all SPI and may place an onus on the practitioner to perform the reconciliation when this is not appropriate. This change is not shown in track changes as it was not included in the exposure draft. As requested by the board, staff explored including the related application material in the section on designing and performing procedures. This resulted in the removal of paragraph A56 (not shown in track changes as was not included in exposure draft) and amendments to paragraph A50.
- e. Reporting: To enhance the communicative value of the assurance report, the Board supported an additional emphasis to require a description of “other procedures” in the report. (Refer para 50(c)(i)). The markups were supported by the Board at the October meeting.
- f. Reporting: The Board agreed to remove the example of a use of “emphasis of matter” paragraph. (Refer para 53) This is not shown in track changes as it was not included in the exposure draft.
- g. Use of the verb “consider”: The Board expressed support for the markups to include an example on the difference in documentation between “consider” and “evaluate” to promote consistency in practice. (para. A24)
- h. Lack of internal control: Removed the reminder to engage early with the entity to obtain an understanding of internal controls. (This was removed at A19. It is not shown in track changes as it was not included in the exposure draft). To consider adding examples and scenarios to provide guidance on when there is a lack of internal controls in application material or by non-authoritative guidance to support assurance over service performance information broadly. Staff recommend that this is addressed as non-authoritative guidance and therefore included as part of the project plan for service performance information at agenda item 4.1.
- i. Materiality: The Board expressed support for adding examples of qualitative factors to be considered, but requested the two examples be combined. Updated drafting to combine the examples is reflected at para. A43.
- j. Reliable data:) Support for application material to highlight the importance of the measure to users when assessing the sufficiency and appropriateness of evidence and that multiple sources of evidence may be required. To remove the sentence that the auditor can accept records and documents as genuine. To explore other standards and guidance available to promote consistency in practice relating to judgements over reliability of evidence, learning from lessons learnt in climate project and the audit evidence project. Staff included these updates at para. A59. Judgements over reliability of evidence were adapted from ISAE (NZ) 3000 as staff considered the language was appropriate for engagements of tier 3 entities. Examples from the audit evidence and climate projects will be considered for broader SPI non-authoritative guidance.
- k. Reporting: Support for more description of “other” procedures performed with examples provided in application material. (para. A65). Support to include application material to encourage “additional information” to be reported but to remove references to findings or recommendations (para. A66).

10. Staff highlights the following matters:

- a. Change of the wording from “professional judgement“ to “judged” when considering the need for “other procedures” for example at para 7, 31, 50(c)ii.
 - b. The recommendation of an application date of 1 January 2026. This is in line with what was proposed in the consultation of one year following approval.
 - c. A recommendation to permit early adoption in order for assurance practitioners to obtain the benefit of a specific standard for earlier balance dates such as June.
 - d. The conforming and consequential amendments to update XRB Au1 for NZ SRE 1.
11. Based on discussions from the October meeting, we recommend the standard is issued late January 2025.

Explanation for Decisions Made and Signing Memorandum

- 12. We also seek approval of the explanation for decisions made and signing memorandum.
- 13. We draw particular attention to the paragraphs 7,12-13 in the explanation for decisions made and paragraphs 22-28 in the signing memorandum on the costs and benefits of issuing the standard as highlighted above.

Recommendations

- 14. We recommend that the Board:
 - a. Approves the draft NZ SRE 1 with an application date of 1 January 2026, and permit early adoption.
 - b. Approves the signing memorandum and explanation for decisions made
 - c. Approves the standard to be issued in January 2025.
- 15. Plans to communicate and enhance awareness and understanding of the new standard will be finalised after the standard has been approved. This work will be ongoing until the standard is applicable. It will overlap with ongoing work and communication to enhance reporting and assurance of service performance information.

Material Presented

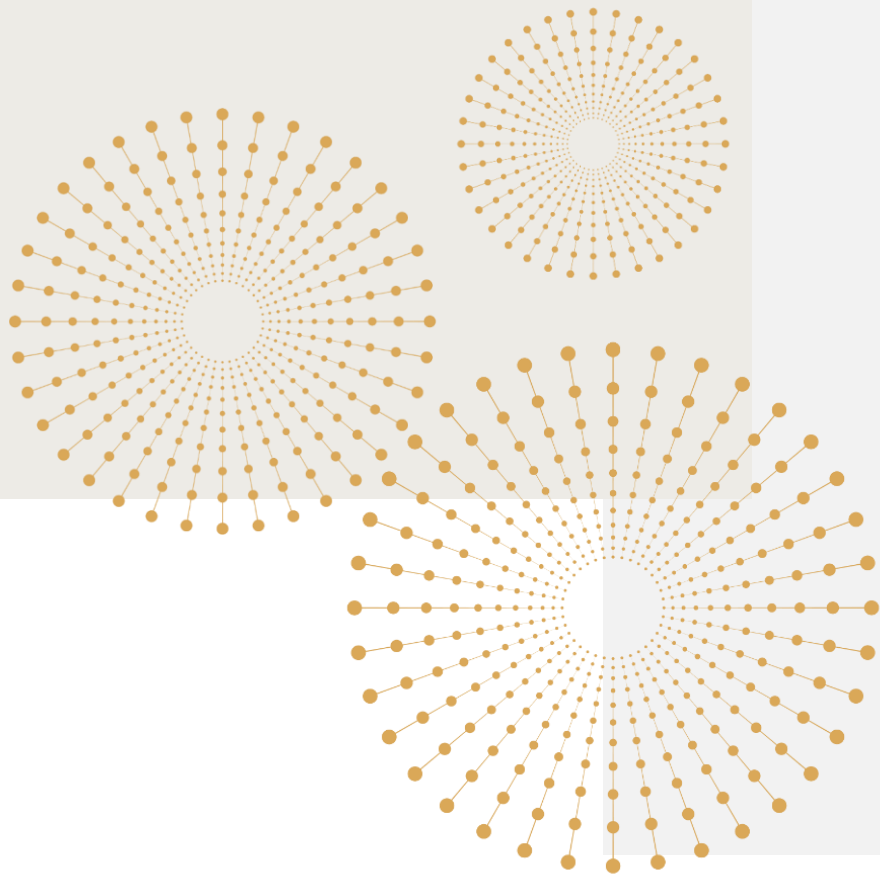
Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	Standard
Agenda item 3.3	Explanation for Decisions Made
Agenda item 3.4	Signing Memorandum



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZ SRE 1 Review of Service Performance Information

~~XXX~~ **Commencement and application dates: refer to paragraphs 0.1-0.3 of this standard.**



January 2025



NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 1 REVIEW OF SERVICE PERFORMANCE INFORMATION

Legal status of standard

This Standard was issued on xx January 2023 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board (XRB) pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019. An assurance practitioner that is required to apply this Standard is required to apply the Standard in accordance with the application date which is set out in paragraphs 0.1-0.3.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued for the review of service performance information contained within a general purpose financial report.

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NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 1

REVIEW OF SERVICE PERFORMANCE INFORMATION

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Appendix 1: Illustrative Review Engagement Letter including Service Performance Information

Appendix 2: Illustrative Representation Letter including Service Performance Information

Appendix 3: Illustrative Assurance Practitioner’s Review Report including Service Performance Information

Appendix 4: Illustrations of Assurance Practitioner’s Report with Modified Conclusions with respect to Service Performance Information

History of Amendments

Table of pronouncements – NZ SRE 1 Review of Service Performance Information

This table lists the pronouncements establishing and amending NZ SRE 1.

<u>Pronouncements</u>	<u>Date Approved</u>	<u>Effective Date</u>
<u>New Zealand Standard on Review Engagements 1</u>	<u>December 2024</u>	<u>Effective for assurance engagements beginning on or after 1 January 2026</u>

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019.¹

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are:
- (a) For an early adopter, those accounting periods following, and including, the **early adoption accounting period**:
 - (b) For any other assurance practitioner, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

- 0.3 In paragraph 0.2:
early adopter means an assurance practitioner that applies this standard for an early adoption accounting period.

early adoption accounting period means the accounting period:

- (a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and
- (b) for which the early adopter
 - (i) first applies this standard, and
 - (ii) discloses in its assurance practitioner's review report for that accounting period that this standard has been applied for that period.

- 0.4 **mandatory date** means ~~1 November~~ 1 January 2025/2026.

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, when applicable, 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.
2. To obtain limited assurance over service performance information requires a different approach than may be used for the financial information. This NZ SRE emphasises the need to understand the entity and use that understanding to discuss with management whether the entity's approach provides an appropriate basis for the service performance information and is expected to result in appropriate and meaningful reporting, prior to obtaining evidence whether anything has come to the assurance practitioner's attention that the service performance information does not fairly reflect the actual service performance. (Ref: Para. A1-A2)

¹ The standard was published on XX XXXXX.

Scope of this NZ SRE

3. This New Zealand Standard on Review Engagements (NZ SRE) deals with the assurance practitioner’s responsibilities with respect to service performance information when an assurance practitioner is engaged to perform a review of service performance information concurrently with a review of the financial statements.
4. This NZ SRE establishes requirements and provides guidance not addressed by International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400² with respect to service performance information.
5. This standard together with ISRE (NZ) 2400 sets out the requirements to obtain limited assurance over service performance information.
6. This NZ SRE applies when the assurance practitioner is required by law or regulation or is otherwise engaged to review both the financial statements and the service performance information prepared in accordance with the applicable financial reporting framework. (Ref: Para. A3)

Objective

7. The objectives of the assurance practitioner are to:
 - (a) obtain limited assurance:
 - (i) about whether anything has come to their attention that causes the assurance practitioner to believe that the service performance information does not present fairly, in all material respects in that:
 - (a) the service performance information is appropriate and meaningful, and
 - (b) prepared in accordance with the entity’s measurement bases or evaluation methods in accordance with an applicable financial reporting framework.
 - (ii) ~~_____~~, primarily by performing enquiry, ~~and~~ analytical procedures, and, ~~if judged by as~~ the assurance practitioner ~~to be considers~~ necessary in the circumstances, other procedures, ~~about whether anything has come to their attention that the service performance information individually or collectively is not free from material misstatement, and~~
 - (b) express a limited assurance conclusion in a written report.

Commented [LT1]: At the October meeting the board expressed support for emphasising the “two step” approach in the objective paragraph. The board requested the paragraph be rewritten to improve clarity due to the length of the paragraphs.

Definitions

8. For the purposes of this NZ SRE, 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 and include:
 - (i) An element/aspect of service performance or performance measure and/or description, or a measurement basis or evaluation method that is not appropriate and meaningful; or

² ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

- (ii) An element/aspect of service performance or performance measure and/or description that would be appropriate and meaningful is omitted; or
 - (iii) Incorrectly measuring or evaluating the entity's service performance.
- (b) *Management's expert* – An individual or organisation possessing expertise in a field other than accounting or assurance, whose work in that field is used by the entity to assist the entity in preparing the service performance information.
- (c) *Service organisation* – A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are part of those entities' information systems relevant to reporting service performance information.

Requirements

General Requirements

Conducting an Engagement in Accordance with this NZ SRE

9. The assurance practitioner shall apply ISRE (NZ) 2400 and this NZ SRE when reviewing service performance information. (Ref: Para. A4)
10. The practitioner shall have an understanding of the entire NZ SRE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.
11. The assurance practitioner shall not represent compliance with this NZ SRE unless the assurance practitioner has complied with the requirements of both this NZ SRE and ISRE (NZ) 2400 in relation to the review of service performance information.

Professional Judgement and Professional Scepticism

12. The assurance practitioner shall plan and perform the review of service performance information by exercising professional judgement and with an attitude of professional scepticism. (Ref: Para. A5)

Documentation

13. The assurance practitioner shall document the nature, timing and extent of the procedures performed to comply with this NZ SRE and ISRE (NZ) 2400.
14. The documentation shall include:
 - (a) Significant professional judgements made in procedures performed, the evidence obtained, and conclusions reached. (Ref: Para. A6)
 - (b) As far as possible, evidence of relevant relationships between the service performance information and the financial statements.

Agreeing the Terms of the Engagement

15. The terms of engagement shall include: (Ref: Para. A7-A10)
 - (a) The responsibilities of the assurance practitioner with respect to the service performance information is to express a conclusion on the service performance information on whether anything has come to the assurance practitioner's attention that causes them to believe that the service performance information does not present fairly, in all material respects:

- in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
- (b) The responsibilities of management or those charged with governance, as appropriate, 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; and
 - (iv) Such internal control as management or those charged with governance, as appropriate, determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.

The Assurance Practitioner's Understanding

Understanding the Entity

16. The assurance practitioner shall obtain an understanding of: (Ref: Para. A11)
- (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.
 - (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 assurance practitioner shall obtain an understanding of: (Ref: Para. A12-A14)
- (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 review of service performance information; and
 - (b) How the entity is complying with that framework.

Understanding the Service Performance Information Reported

18. The assurance practitioner shall obtain an understanding of: (Ref: Para. A15-A18)

- (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, if applicable, judgements to report.
- (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 used by the entity to assess the performance measures and/or descriptions and how these are made available to intended users.
- (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.
- (f) Where the entity intends to report its service performance information.

Understanding of Internal Control

- 19. The practitioner shall obtain an understanding of internal control, over the preparation of the service performance information. (Ref: Para. A19-A20)

Planning

- 20. The assurance practitioner shall develop a review plan with a single review approach to concurrently cover the service performance information and the financial statements. (Ref: Para. A21-A23)
- 21. In establishing the review plan, the assurance practitioner shall:
 - (a) Consider the factors that, in the assurance practitioner's professional judgement, are significant in directing the engagement team's efforts in respect of the review of service performance information.
 - (b) Determine the timing of when to consider whether the entity's service performance information is appropriate and meaningful.
 - (c) Determine whether expertise in a field other than accounting or assurance may be necessary regarding the service performance information. (Ref: Para. A57)
- 22. The assurance practitioner shall discuss with management or those charged with governance, as appropriate:
 - (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.
- 23. Any concerns identified shall then be communicated to management or as appropriate, those charged with governance as soon as practicable.

Compliance With the Applicable Financial Reporting Framework

Appropriate and Meaningful

24. The assurance practitioner shall consider whether the service performance information: (Ref: Para. A6, A24-A27, A34)
 - (a) Fairly reflects the assurance practitioner’s understanding of the entity’s performance from all other review work performed on the engagement. (Ref: Para. A28)
 - (b) Is likely to meet the needs of the intended user to enable an informed assessment of the entity’s service performance. (Ref: Para. A29-A30)
 - (c) Relates to an element/aspect of service performance that significantly contributes to the entity’s core purpose, functions or objectives. (Ref: Para. A31)
 - (d) Is likely to have sufficient appropriate evidence to support the performance measure and/or description.
 - (e) Is capable of measurement or evaluation in a consistent manner from period to period. (Ref: Para. A32-A33)
 - (f) 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.

Materiality

25. The assurance practitioner shall use the understanding gained in paragraphs 16-19 to determine the significant elements/aspects of service performance. (Ref: Para. A35-A36)
26. The assurance practitioner shall determine and document materiality considerations and/or materiality for service performance information to determine the: (Ref: Para. A6, A37-A40)
 - (a) Nature, timing and extent of review procedures; and
 - (b) Assurance practitioner’s tolerance for misstatement in relation to material service performance measures and/or descriptions.
27. The assurance practitioner shall apply materiality when assessing: (Ref: Para. A41-A49)
 - (a) The appropriateness and meaningfulness of the significant elements/aspects of service performance and related material performance measures and/or descriptions; and (Ref: Para. A41-A42)
 - (b) Individual or collective misstatements within performance measures and/or descriptions, measurement bases or evaluation methods, that based on the assurance practitioner’s judgement, are likely to influence the decisions of the intended users based on the information.
28. The assurance practitioner shall revise the judgements made in determining materiality for the service performance information if matters come to the assurance practitioner’s attention during the review that would have caused the assurance practitioner to make a different materiality judgement.

29. The assurance practitioner shall consider individually or collectively, the impact on the service performance information, of all misstatements identified during the review, other than those that are clearly trivial, that are uncorrected by the entity. (Ref: Para. A44-A49)

Designing and Performing Procedures

30. The assurance practitioner shall use the understanding obtained in paragraphs 16-19, to identify areas in the service performance information where material misstatements are likely to arise and thereby provide a basis for designing procedures to address those areas. (~~Ref: Para. A50~~)
31. In obtaining sufficient appropriate evidence as the basis for a limited assurance conclusion on the service performance information, the assurance practitioner shall design and perform enquiry and analytical procedures and, ~~as-if judged by~~ the assurance practitioner ~~to be considered~~ necessary in the circumstances, other procedures: (Ref: ~~Para. A50+~~ A53)
- (a) To address all material service performance information; and
 - (b) To address areas where material misstatements are likely to arise.
32. In designing analytical procedures, the assurance practitioner shall consider whether the data relevant to service performance information from the entity’s information system and records are adequate for the purpose of performing the analytical procedures. (Ref: Para. A54)
33. Where possible the assurance practitioner shall draw on relationships that exist between the service performance information and the financial statements. (Ref: Para. A55)
34. If the assurance practitioner becomes aware of a matter that causes the assurance practitioner to believe that the service performance information may be materially misstated, the assurance practitioner shall design and perform additional procedures to obtain further evidence until the assurance practitioner is able to:
- (a) Conclude that the matter is not likely to cause the service performance information to be materially misstated; or
 - (b) Determine that the matter causes the service performance information to be materially misstated.
35. Where the service performance information relates to a group, obtain sufficient appropriate evidence regarding the service performance information of the components and the aggregation or consolidation process in order to express a conclusion on the group service performance information. (Ref: Para. A56)

Commented [LT2]: New wording to provide clarity that it is a matter of judgement of when “other procedures” are required. This is updated from “professional judgement” as presented at the October meeting.

Non-compliance with Laws and Regulations

36. The assurance practitioner shall comply with ISRE (NZ) 2400 for actual, suspected or alleged non-compliance with provisions of those laws and regulations that are generally recognised to have a direct effect on the reporting of material service performance information.

Use of Work Performed by Others

37. The assurance practitioner shall determine whether information to be used as evidence has been prepared using the work of a management’s expert. If the assurance

practitioner uses work performed by a management’s expert in the course of performing the review, the assurance practitioner shall take appropriate steps to be satisfied that the work performed is adequate for the assurance practitioner’s purpose. (Ref: Para. A57)

38. Where service performance information is derived from a service organisation, the assurance practitioner shall obtain an understanding of the nature and significance of the services provided by the service organisation to identify areas where material misstatements are likely to arise in the service performance information and thereby provide a basis for designing procedures to address those areas.

Commented [LT3]: At the October meeting the Board agreed to remove the requirement to reconcile SPI to underlying SPI records but to keep the associated application material and move under “design and performing procedures”.

Written Representations

39. In addition to the representations required by ISRE (NZ) 2400³, the assurance practitioner shall request written representations from management or those charged with governance, as appropriate, that they have fulfilled their responsibility for: (Ref: Para. A58)
- (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 management or those charged with governance, as appropriate, determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error.

Evaluating the Evidence Obtained

40. The assurance practitioner shall evaluate whether sufficient appropriate evidence has been obtained regarding service performance information, in accordance with ISRE (NZ) 2400⁴. (Ref: Para. A59)

Forming the Assurance Practitioner’s Conclusion on the Service Performance Information

41. The assurance practitioner shall form a conclusion on whether anything has come to their attention that causes the assurance practitioner to believe that the service performance information does not present fairly⁵, in all material respects:
- in that the service performance information is appropriate and meaningful and prepared in accordance with the entity’s measurement bases or evaluation

³ ISRE (NZ) 2400, paragraph 61-65

⁴ ISRE (NZ) 2400, paragraph 66-68

⁵ When the service performance information is prepared in accordance with a compliance framework, the assurance practitioner is not required to evaluate whether the service performance information achieves fair presentation.

methods, in accordance with the applicable financial reporting framework.

42. In forming a conclusion on the service performance information, the assurance practitioner shall consider:
 - (a) Whether uncorrected misstatements are material, individually or collectively, as required by paragraph 29.
 - (b) The sufficiency and appropriateness of evidence obtained, as required by paragraph 40.
43. When the information is prepared in accordance with a fair presentation framework, in addition to the requirements of paragraph 42, the assurance practitioner shall also consider whether anything has come to the assurance practitioner's attention regarding:
 - (a) The appropriateness and meaningfulness of the service performance information presented by the entity.
 - (b) Whether the service performance information is not prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.
 - (c) The availability of the measurement bases or evaluation methods to intended users. (Ref: Para. A60-A61)
 - (d) Whether the overall presentation of the service performance information has been undermined by the inclusion of irrelevant information or information that obscures a proper understanding of the matters disclosed.
 - (e) Whether the overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that does not achieve fair presentation.

Form of the Conclusion

44. The assurance practitioner's conclusion on the service performance information, whether unmodified or modified, shall be expressed in the appropriate form in the context of the financial reporting framework applied to the service performance information.

Unmodified Conclusion

45. The assurance practitioner shall express an unmodified conclusion in the assurance practitioner's report on the service performance information when the assurance practitioner has obtained limited assurance to be able to conclude that nothing has come to their attention that causes the assurance practitioner to believe that the service performance information, does not present fairly, in all material respects, in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework.

Modified Conclusion

46. The assurance practitioner shall modify the conclusion, with respect to the service performance information when:
 - (a) The assurance practitioner 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 assurance practitioner concludes, based on the evidence obtained, that the service performance information is not individually or collectively free from material misstatement, or
 - (c) The assurance practitioner is unable to obtain sufficient appropriate evidence to conclude that the service performance information, as a whole, is free from material misstatement.
47. When the assurance practitioner modifies the conclusion with respect to the service performance information, the assurance practitioner shall consider the effect of the modification on the conclusion on the financial statements. (Ref: Para. A62)
48. If the assurance practitioner modifies the conclusion on the financial statements, the assurance practitioner shall consider the effect of the modification on the conclusion of the service performance information.

The Assurance Practitioner's Report

49. The assurance practitioner'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 ISRE (NZ) 2400⁶ as applicable to the service performance information. (Ref: Para. A63-A64)
50. In addition to the requirements addressing financial statements in ISRE (NZ) 2400, the assurance practitioner's report shall:
- (a) Describe the responsibilities of management or those charged with governance, as appropriate, including 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; and
 - (iv) Such internal control as management or those charged with governance, as appropriate, determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error;
 - (b) Describe the assurance practitioner's responsibility to express a conclusion on the service performance information including reference to this NZ SRE and ISRE (NZ) 2400. This description should include the responsibility of the assurance

⁶ ISRE (NZ) 2400, paragraph 86-NZ86.1

practitioner to conclude whether anything has come to the assurance practitioner's attention that causes them to believe that the service performance information does not present fairly, in all material respects:

- (i) in that the service performance information is appropriate and meaningful, and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with the applicable financial reporting framework;
 - (c) Describe a review of service performance information and its limitations, including the following statements:
 - (i) A review engagement under this NZ SRE and ISRE (NZ) 2400 is a limited assurance engagement;
 - (ii) ~~That the assurance practitioner performs-performed~~ procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures, and, ~~as [a description of any other procedures the assurance practitioner considers-judged to be necessary in the circumstances], other procedures,~~ and ~~evaluates-evaluated~~ the evidence obtained; and (Ref: Para. A65)
 - (iii) ~~That the~~ procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board, and, accordingly, the assurance practitioner does not express an audit opinion on the service performance information; and
 - (d) Include a conclusion paragraph that:
 - (i) Contains the assurance practitioner's conclusion on the service performance information;
 - (ii) Identifies the service performance information; and
 - (iii) Refers to the measurement bases or evaluation methods.
51. When the assurance practitioner modifies the conclusion with respect to the service performance information only, the conclusion shall clearly indicate that the conclusion on the financial statements is not modified. The assurance practitioner shall:
- (a) Use the heading "Qualified Conclusion on the Statement of Service Performance", "Adverse Conclusion on the Statement of Service Performance" or "Disclaimer of Conclusion on the Statement of Service Performance" as appropriate, for the conclusion paragraph in the assurance practitioner's report. The conclusion with respect to the financial statements shall use the heading "Conclusion on the Financial Statements"; and
 - (b) Provide a description of the matter giving rise to the modification, under an appropriate heading (for example, "Basis for Qualified Conclusion on the Statement of Service Performance", "Basis for Adverse Conclusion on the Statement of Service Performance" or "Basis for Disclaimer of Conclusion on the Statement of Service Performance", as appropriate), in a separate section in the assurance practitioner's report immediately before the conclusion paragraph

(referred to as the basis for conclusion paragraph in ISRE (NZ) 2400⁷).

Scope Limitation

52. If the assurance practitioner is unable to obtain sufficient appropriate evidence to form a conclusion, the assurance practitioner shall discuss with management or those charged with governance, as appropriate, the effects such limitations have on the scope of the review. (Ref: Para. ~~A65A67-A66A68~~)

Emphasis of Matter Paragraphs and Other Matter Paragraphs

53. If the assurance practitioner considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information, that in the assurance practitioner's judgement, is of such importance that it is fundamental to users' understanding of the service performance information, the assurance practitioner shall include an Emphasis of Matter paragraph in the assurance practitioner's report.
54. If the assurance practitioner considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the assurance practitioner's judgement, is relevant to users' understanding of the review of service performance information, the assurance practitioner shall include an Other Matter paragraph in the assurance practitioner's report. (Ref: Para. A66)

Commented [LT4]: At the October meeting the Board requested the example of an Emphasis of Matter be removed

Communication with Management and Those Charged with Governance

55. In applying ISRE (NZ) 2400⁸, the assurance practitioner shall communicate with management and those charged with governance, as appropriate, on a timely basis during the course of the review engagement, all matters concerning the review of service performance information that, in the assurance practitioner's professional judgement, are of sufficient importance to merit the attention of management or those charged with governance, as appropriate. (Ref: Para. ~~A67A69-A69A71~~)

Application and Other Explanatory Material

Introduction (Ref: Para. 2)

- A1. The assurance practitioner may benefit from early engagement with the entity to understand the entity's service performance reporting process, and address any challenges that may arise having considered the factors required by paragraph 24.
- A2. Service performance reporting requirements are generally less prescribed than financial information. This may result in varied service performance reporting between similar entities and industries. Therefore, when providing limited assurance over service performance information, prior to obtaining evidence that the service performance information fairly reflects actual performance, it is fundamental that the assurance practitioner uses their understanding of the entity, to firstly consider what service performance information the entity has selected to report, and how that information will be measured or evaluated.

⁷ ISRE (NZ) 2400, paragraph 80, 85

⁸ ISRE (NZ) 2400, paragraph 42

Scope of this NZ SRE (Ref: Para. 6)

- A3. 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.

General Requirements

Conduct Engagement in Accordance with ISRE (NZ) 2400 (Ref: Para. 9)

- A4. This NZ SRE supplements ISRE (NZ) 2400. It expands on how ISRE (NZ) 2400 is to be applied to the service performance information. This NZ SRE includes specific requirements for the service performance information that are not explicitly dealt with by ISRE (NZ) 2400 or where the application of ISRE (NZ) 2400 differs as a result of the nature of the service performance information.

Professional Judgement and Professional Scepticism (Ref: Para. 12)

- A5. 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 assurance practitioner may find it helpful to seek out examples of service performance reporting of similar entities.

Documentation (Ref: Para. 14(a))

- A6. Examples of the use of professional judgement to include in documentation include significant matters and judgements relating to:
- The **rationale in concluding the** appropriateness and meaningfulness of the service performance information (Ref: Para. 24).
 - The factors considered in determining materiality and what measures are material (Ref: Para. 26).

Commented [LT5]: The Board supported the inclusion of this wording at the October meeting to enhance consistency application of the verb “to consider”.

Agreeing the Terms of the Engagement (Ref: Para. 15)

- A7. The terms of the review engagement include references to the service performance information.
- A8. A review is conducted in accordance with this NZ SRE on the basis that management, and where appropriate, those charged with governance, have acknowledged and understand that they have a responsibility for the preparation of service performance information that is appropriate and meaningful and for designing, implementing and maintaining a system of internal control that management and, where appropriate, those charged with governance, determine is necessary to enable the preparation of service performance information that is appropriate and meaningful. The entity’s process to identify service performance information to report should appropriately support the preparation of service performance information that is appropriate and meaningful. In the absence of such a process, it may be difficult to establish whether management or those charged with governance, as appropriate, have a reasonable basis for the service performance information.

A9. Some entities are required by the applicable financial reporting framework to prepare entity information.⁹ For Tier 3 registered charities that have a statutory review requirement¹⁰, all information required to be prepared by the applicable reporting standard is required to be reviewed, including the entity information.

A10. An illustrative engagement letter that covers the agreed terms of the engagement of the performance report is set out in Appendix 1.

The Assurance Practitioner’s Understanding

Understanding the Entity (Ref: Para. 16)

A11. The assurance practitioner may obtain an understanding through:

- (a) Enquires with management or those charged with governance, as appropriate.
- (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’s newsletters.
 - Entity’s public website.
 - Charities register.
 - Media reports.

Understanding Laws and Regulations (Ref: Para. 17)

A12. Laws and regulations may differ among entities depending on their governing legislation.

A13. 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.

A14. 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 assurance practitioner is not required to assess whether the service performance information is appropriate and meaningful.

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

A15. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external service performance information, including pre-established

⁹ Examples of financial reporting frameworks that require an entity information include:

- Reporting Requirements for Tier 3 Not-for-Profit Entities
- Reporting Requirements for Tier 3 Public Sector Entities
- Reporting Requirements for Tier 4 Not-for-Profit Entities
- Reporting Requirements for Tier 4 Public Sector Entities

¹⁰ Charities Act 2005

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.

- A16. 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 assurance practitioner 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 assurance practitioner 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 assurance practitioner carries out.
- A17. 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 assurance practitioner 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.
- A18. 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 assurance practitioner 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.

Understanding of Internal Control (Ref: Para. 19)

- A19. Internal control systems related to the preparation of service performance may be less developed or less well embedded into the operations than those related to the preparation of financial information. They may be less traditional to those used for financial information.
- A20. An entity's internal control systems related to the preparation of service performance information may vary by size or complexity of the entity, and the nature and complexity

Commented [LT6]: Wording to encourage early engagement in gaining an understanding of internal control has been removed as per Board agreement at the October meeting

of the service performance information. There is a difference between simple controls and inadequate controls. Simple controls may be adequate when the entity and the performance measure and/or description and its measurement basis or evaluation method are not complex.

Planning (Ref: Para. 20)

- A21. Although it is likely that the service performance information and financial information will come from different systems, a single approach to the review recognises the inextricable link between the service performance information and the financial statements of an entity.
- A22. It is important to engage with the entity as early as possible to understand the elements/aspects of service performance, performance measures and/or descriptions, and measurement bases or evaluation methods the entity intends to report.
- A23. Expertise in a field other than accounting or assurance may be necessary as a result of information included in the service performance information, for example, expertise in relation to the measurement of complex performance measures.

Compliance With the Applicable Financial Reporting Framework

Appropriate and Meaningful (Ref: Para. 24)

- A24. ~~When considering the service performance information,~~ the assurance practitioner ~~assesses~~ may consider 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. The assurance practitioner’s documentation may include the factors they considered in reaching their conclusion rather than a systematic evaluation of the service performance information against each qualitative factor and pervasive constraint.
- A25. Consideration of whether the service performance information will result in appropriate and meaningful reporting may include the following aspects of service performance information:
 - 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.
- A26. It is the entity’s responsibility to determine what information to report, and for the assurance practitioner to consider the process and rationale the entity applied in arriving at the selection of information to report, and to use professional judgement to assess whether the reported information does not present fairly, in all material respects, the service performance information.
- A27. The entity’s selection of appropriate and meaningful service performance information to report involves a considerable amount of judgement. Although enquiry may be the

Commented [LT7]: At the October meeting, the board supported the inclusion of this example to promote consistency in practice of the verb “to consider”

principal source of evidence, there may be documentation that provides evidence to support the judgements made by the entity in selecting the service performance information to report, for example, those referred to in paragraph A11.

A28. The assurance practitioner may consider whether the service performance information inappropriately attributes service performance to the entity. (Ref: Para. 24(a))

A29. The assurance practitioner may consider: (Ref: Para. 24(b))

- Whether the service performance information presents a neutral view including all significant aspects, both positive and negative.
- Whether any service performance information is omitted, where this is an appropriate link to the service performance of the entity.
- 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, in the central government sector, central agencies may provide guidance or establish requirements for the preparation of service performance information. The assurance practitioner 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 service performance report is complete.

A30. 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. (Ref: Para. 24(b))

A31. The assurance practitioner may consider whether: (Ref: Para. 24(c))

- 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.

A32. The potential for management bias directly correlates with the amount of consideration that the assurance practitioner may need to give to the appropriateness and meaningfulness of the service performance information. For example, the assurance practitioner 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. (Ref: Para. 24(e))

A33. Some service performance information that is more relevant for users, may be measured less precisely. The assurance practitioner may perform different review procedures than for those where the service performance can be more precisely measured. (Ref: Para. 24(e))

A34. The assurance practitioner's consideration of the appropriateness and meaningfulness of service performance information may be an iterative process.

Materiality (Ref: Para. 25-29)

A35. There can be significant variation in the service performance information selected and presented by entities. The assurance practitioner'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.

A36. Understanding what elements/aspects of service performance are significant to users may assist the assurance practitioner in focusing their review efforts and applying professional judgement when considering any misstatements identified.

A37. The assurance practitioner's materiality considerations and determination of materiality is a matter of professional judgement. The requirements in paragraph 24, particularly the factors regarding relevance considered by the assurance practitioner in paragraphs A24 to A34, may assist the assurance practitioner to determine materiality considerations and/or materiality.

A38. 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 may provide a frame of reference to the assurance practitioner in determining what is material. The assurance practitioner'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.

- A39. 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 assurance practitioner 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.
- A40. The materiality considerations determine the assurance practitioner'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 assurance practitioner may need to exercise professional judgement beyond the traditional approach of applying a percentage to a chosen benchmark. In some instances, there may be no tolerance for error in some performance measures and/or descriptions.
- A41. It is a matter of professional judgement whether the assurance practitioner's assessment of the significant elements/aspects of service performance and related material performance measures and/or descriptions required by paragraph 27(a) gives rise to a material misstatement.
- A42. The assurance practitioner may firstly consider which elements/aspects of service performance are important to intended users. Having identified those, the assurance practitioner 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 assurance practitioner to material service performance measures and/or descriptions.
- A43. The following **qualitative** factors may assist the assurance practitioner 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 assurance practitioner 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 assurance practitioner 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 assurance practitioner may be particularly diligent where a target has only just been achieved.
- Whether a misstatement is material having regard to the assurance practitioner's understanding of known previous communications to users.
- Whether the service performance information relates to a conclusion on compliance with law or regulation and the seriousness of the consequences of non-compliance.

Misstatements

A44. 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 assurance practitioner as not being appropriate and meaningful;
- An element/aspect of service performance or performance measure and/or description is omitted that is assessed by the assurance practitioner as 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.

A45. An individual misstatement, impacting a single element/aspect of service performance, performance measure and/or description, may be material.

A46. 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 assurance practitioner needs to consider whether the service performance information as a whole is materially misstated.

A47. It is unlikely that the assurance practitioner will be able to aggregate misstatements numerically. However, this does not remove the need for the assurance practitioner to

Commented [LT8]: This is a combination of the two examples of materiality considerations presented to the Board at October to provide additional application material on materiality for qualitative measures.

form a conclusion as to whether uncorrected misstatements are material individually or collectively, as required by paragraph 29.

A48. The assurance practitioner exercises professional judgement to conclude on the impact of any material misstatement on the conclusion. The assurance practitioner 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.

A49. 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.

Designing and Performing Procedures (Ref: Para. 30-35)

A50. 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 evidence. The assurance practitioner may find it more challenging and need to think differently than for traditional financial reporting to obtain relevant and reliable evidence. For example, the assurance practitioner may agree reported service performance back to a spreadsheet, supported by evidence, rather than a trial balance.

A51. The mix of procedures to be performed may vary compared with the mix used in regard to the financial statements, but the mix of procedures used does not alter the level of evidence required.

A52. In a review, the assurance practitioner performs primarily enquiry and analytical procedures. However, the nature of service performance information reported may have an effect on the mix of procedures used. For example, due to the nature of some of the service performance information analytical procedures may not be relevant and so another substantive procedure may be more appropriate.

Commented [LT9]: Per October meeting, staff removed the proposed requirement to obtain evidence that the SPI agrees or reconciles to the entity’s underlying service performance records. The Board requested the related application material to be included elsewhere. This sentence is to reflect that application material.

Commented [LT10]: Additional wording supported by the Board at October, to provide clarity that “other procedures” are only required in some instances.

A53. The fact that the assurance practitioner may deem it necessary to perform other procedures does not alter the assurance practitioner's objective of obtaining limited assurance in relation to the service performance information.

A54. The assurance practitioner's consideration of whether data to be used for analytical procedures are satisfactory for the intended purpose(s) of those procedures is based on the assurance practitioner's understanding of the entity and its environment and is influenced by the nature and source of data, and by the circumstances in which the data are obtained. The following considerations may be relevant:

- Source of the information available. For example, information may be more reliable when it is obtained from independent sources outside the entity.
- Nature and relevance of the information available. For example, what is the proximity of the information to the effect being reported.
- The knowledge, expertise and any related controls involved in the preparation of the information.

~~A55.~~ In designing analytical procedures, the assurance practitioner 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.

~~A55.~~

A56. When the assurance practitioner is engaged to review the service performance information of a group of entities, the planned nature, timing and extent of the procedures for the review are directed at achieving the assurance practitioner's objectives for the review engagement stated in this NZ SRE, but in the context of the group service performance information.

Use of Work Performed by Others (Ref: Para. 21 (c), 37-38)

A57. The assurance practitioner may use the work of an individual or organisation possessing expertise in a field other than accounting or assurance, whose work in that field is used by the entity to assist the entity in preparing the service performance information (a management's expert). Examples may include a professional survey firm conducting a perception questionnaire or satisfaction survey, or preparing a water quality report.

Written Representations (Ref: Para. 39)

A58. An illustrative written representation letter is set out in in Appendix 2.

Evaluating the Evidence Obtained (Ref: Para. 40)

A59. What constitutes sufficient appropriate evidence is a matter of professional judgement. In exercising professional judgement, the assurance practitioner should consider the importance of the measure to the users. The assurance practitioner may need to identify alternative sources of evidence not normally considered for reviews of financial information. Multiple sources of evidence may be needed for some performance measures depending on the relevance and reliability of the evidence. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual

Commented [LT11]: Application material on considering importance of the measure and multiple sources supported by the Board at October.

Acceptance of records as genuine removed as per October board meeting.

Additional application material of judgments around reliability of evidence added as requested at October board meeting.

circumstances under which it is obtained. While recognising that exceptions may exist, the following generalisations about the reliability of evidence may be useful:

- Evidence is more reliable when it is obtained from independent sources outside the entity.
- Evidence that is generated internally is more reliable when the related controls are effective.
- Evidence obtained directly by the assurance practitioner (for example, observation of an event taking place) is more reliable than evidence obtained indirectly or by inference (for example, enquiry about an event taking place).
- Evidence is more reliable when it exists in documentary form, whether paper, electronic or other media (for example, approved minutes of a meeting is ordinarily more reliable than a subsequent oral representation of what was discussed).

Forming the Assurance Practitioner's Conclusion on the Service Performance Information (Ref: Para. 41-48)

A59-A60. The measurement bases or evaluation methods used to assess a performance measure and/or description need to be made available to intended users to allow them to understand how the underlying service performance information has been measured or evaluated.

A60-A61. The measurement bases or evaluation methods may be made available to the intended users in one or more ways, for example:

- (a) Publicly, for example, readily available documents such as a published external assessment framework on a website.
- (b) Through inclusion in a clear manner in the presentation of the service performance information, in particular for entity-developed measurement bases or evaluation methods.
- (c) Through inclusion in a clear manner in the description of the performance measure and/or description itself, for example, number of meals delivered.
- (d) By general understanding, for example, the method of measuring time in hours and minutes. The assurance practitioner may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault.

Form of the Conclusion

Modified Conclusion (Ref: Para. 47)

A61-A62. In those circumstances where the assurance practitioner concludes that the service performance information is not presented fairly and that the assurance conclusion should be modified, the assurance practitioner will need to exercise professional judgement to determine whether to issue a modified conclusion on just the service performance information or whether to modify the conclusion on both the service performance information and the financial statements. In many instances, a

modified conclusion in respect of the service performance information will not impact upon the conclusion on the financial statements.

The Assurance Practitioner’s Report (Ref: Para. 49-54)

~~A62~~-A63. The assurance practitioner’s report includes references to the service performance information. An illustrative Assurance Practitioner’s Report that includes references to the service performance information is set out in Appendix 3.

A64. Illustrations of Assurance Practitioner’s Reports with Modified Conclusions with respect to Service Performance Information are set out in Appendix 4.

~~A65~~. Examples of “other procedures” performed described in the assurance report may include random sampling of survey results, observation of an event, inspection of a contract.

~~A63~~-A66. The assurance practitioner’s report may describe additional details relevant to the review of the service performance information. The additional details are not intended to affect the assurance practitioner’s conclusion. The assurance report 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).

Commented [LT12]: Additional application material of examples of other procedure that may be described in the assurance report as requested by the Board at October meeting.
Example removed from appendix assurance report.

Scope Limitation (Ref: Para. 52)

~~A64~~-A67. Inability to perform a specific procedure does not constitute a limitation on the scope of the review if the assurance practitioner is able to obtain sufficient appropriate evidence by performing other procedures.

~~A65~~-A68. Limitations on the scope of the review imposed by management may have other implications for the review, such as for the assurance practitioner’s consideration of areas where the service performance information is likely to be materially misstated, and engagement continuance.

Commented [LT13]: Subject to the removal of reference to ‘findings and recommendations’, application material supported by the Board at October to encourage additional details relevant to the review to be reported in the assurance report.

Communication with Management and Those Charged with Governance (Ref: Para. 55)

~~A66~~-A69. The assurance practitioner is encouraged to communicate with management or as appropriate, with those charged with governance early or as soon as practicable.

~~A67~~-A70. The assurance practitioner may communicate the following matters in relation to the review of service performance information:

- (a) Any uncorrected misstatements identified during the review of the service performance information;
- (b) The assurance practitioner’s views about significant judgements made in reporting the entity’s service performance information, if applicable, including any areas for improvement;
- (c) Significant difficulties, if any, encountered during the review, for example, extensive unexpected effort required to obtain sufficient appropriate evidence or the unavailability of expected information.
- (d) Unless all of those charged with governance are involved in managing the entity, significant matters arising during the review that were discussed, or subject to correspondence with management, such as, 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; and

- (e) Any other matters in respect of the service performance information that, in the assurance practitioner's professional judgement, management and those charged with governance, as appropriate, need to be aware of.

A68-A71. The assurance practitioner'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 assurance practitioner 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.

Appendix 1
(Ref: Para. A10)**Illustrative Review Engagement Letter including Service Performance Information¹¹**

The following is an example of a review engagement letter for a review of a [*financial report/ performance report*], which comprise financial statements and service performance information [*and entity 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 ISRE (NZ) 2400 and NZ SRE 1. 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*]:

[*The objective and scope of the review*]

You¹² have requested that we review 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, 20X3¹³, [*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 review engagement by means of this letter.

Our review will be conducted with the objective of our expressing our conclusion on the [*financial report/ performance report*].

[*The assurance practitioner's responsibilities*]

We will conduct our review of the financial statements in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity* and the review of the service performance information [, *and entity information*] in accordance with the New Zealand Standard on Review Engagements (NZ SRE) 1 *Review of Service Performance Information*. Those standards require us to conclude whether anything has come to our attention that causes us to believe that the [*financial report/ performance report*] does not present fairly, in all material respects, the financial position, financial performance and cashflows of the entity, [*the entity information*], and the service performance information in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods, in accordance with [*the applicable financial reporting framework*].

¹¹ May also be referred to as the Statement of Service Performance.

¹² Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "assurance practitioner" would be used or amended as appropriate in the circumstances.

¹³ Where the assurance practitioner reports on more than one period, the assurance practitioner adjusts the date so that the letter pertains to all periods covered by the assurance practitioner's report.

Those standards also require that we comply with relevant ethical requirements.

A review of the *[financial report/ performance report]* in accordance with ISRE (NZ) 2400 and NZ SRE 1 is a limited assurance engagement. We will perform procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures and, as we ~~judge to be consider~~ necessary in the circumstances, other procedures, and evaluate the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the *[financial report/ performance report]* as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the *[financial report/ performance report]* in accordance with ISRE (NZ) 2400 and NZ SRE 1. The procedures selected will depend on what we consider necessary applying our professional judgement, based on our understanding of the entity and its environment, and our understanding of the applicable financial reporting framework and its application in the industry context.

Commented [LT14]: New wording to provide clarity that it is a matter of judgement of when "other procedures" are required. This is updated from "professional judgement" as presented at the October meeting.

A review is not an audit of the *[financial report/ performance report]*, therefore:

- (a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the *[financial report/ performance report]* reviewed may not be revealed by the review, even though the review is properly performed in accordance with ISRE (NZ) 2400 and NZ SRE 1.
- (b) In expressing our conclusion from the review of the *[financial report/ performance report]*, our report on the performance report will expressly disclaim any audit opinion on the *[financial report/ performance report]*.

[The responsibilities of those charged with governance and identification of the applicable financial reporting framework]

Our review will be conducted on the basis that *[Those Charged with Governance]* acknowledge and understand that they have responsibility, on behalf of the entity:

- (a) For the preparation, and fair presentation of the *[financial report/ performance report]* in accordance with *[the applicable financial reporting framework]*;
- (b) For 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 and, in accordance with *[the applicable financial reporting framework]*;
- (c) For 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]*;
- (d) For the overall presentation, structure and content of the service performance information in accordance with *[the applicable financial reporting framework]*;
- (e) For 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
- (f) To provide us with:
 - (i) 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;

- (ii) Additional information that we may request from [*management or [Those Charged with Governance]*] for the purpose of the review; and
- (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our review, we will request from [*Those Charged with Governance*], written confirmation concerning representations made to us in connection with the review.

We look forward to full cooperation from your team during our review.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

[Insert appropriate reference to the expected form and content of the assurance practitioner's report.]

The form and content of our report may need to be amended in the light of our findings obtained from the review.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the [*financial report/ performance report*] including our respective responsibilities.

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate*]

Acknowledged and agreed on behalf of [*Those Charged with Governance*] of [*ABC Entity*] by
(signed)

.....

Name and Title

Date

Appendix 2
(Ref: Para. A58)

Illustrative Representation Letter including Service Performance Information¹⁴

The following illustrative representation letter includes written representations that are required by ISRE (NZ) 2400 and NZ SRE 1. It is to be used as a guide only and will need to be modified according to the engagement requirements and circumstances.

Representations by management, or where appropriate, those charged with governance¹⁵, will vary between entities and reporting periods. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when management, or where appropriate, those charged with governance have made oral representations which the assurance practitioner wishes to confirm in writing.

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 Assurance Practitioner)

(Date)

This representation letter is provided in connection with your review of the *[financial report/ performance report]* of *[ABC Entity (the "entity")]* for the year ended December 31, 20X3¹⁶ for the purpose of expressing a conclusion as to whether anything has come to your attention that causes you to believe that the accompanying *[financial report/ performance report]* does not present 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 cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in that the service performance information is appropriate and meaningful and prepared in accordance with the entity's measurement bases or evaluation methods

in accordance with *[the applicable financial reporting framework (e.g.: Reporting Requirements for Tier 3 Not-for-Profit Entities)]* 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 review engagement dated *[insert date]*, for:

¹⁴ May also be referred to as the Statement of Service Performance.

¹⁵ Use terminology as appropriate in the circumstances.

¹⁶ Where the assurance practitioner reports on more than one period, the assurance practitioner adjusts the date so that the letter pertains to all periods covered by the assurance practitioner's report.

- 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 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*]; and
- 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.
- [*Any other matters that the assurance practitioner may consider appropriate (see paragraph A105 of ISRE (NZ) 2400).*]

Information Provided

- We have provided you with:
 - 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 review; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain evidence.
- 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;
 - All significant facts relating to any frauds or suspected frauds known to us that may have affected the entity;
 - All known actual or possible non-compliance with laws and regulations for which the effects of non-compliance affect the entity's [*financial report/ performance report*];
 - All information relevant to use of the going concern assumption in the [*financial report/ performance report*];
 - That all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure, have been adjusted or disclosed;
 - Material commitments, contractual obligations or contingencies that have affected or may affect the entity's financial statements, including disclosures;

- o Material non-monetary transactions or transactions for no consideration undertaken by the entity in the financial reporting period under consideration; and
- o [Any other matters that the assurance practitioner may consider appropriate (see paragraph A105 of ISRE (NZ) 2400).]

Signed on behalf of [Those Charged with Governance]¹⁷ of [ABC Entity] by

(signed)

(signed)

.....

.....

Name and Title

Name and Title

¹⁷ The addressees and references in the letter would be those appropriate in the circumstances of the engagement.

Appendix 3
(Ref: Para. A63)

Illustrative Assurance Practitioner’s Review Report including Service Performance Information¹⁸

Illustration 1: Illustrative Assurance Practitioner’s Review Report

Circumstances include the following:

- **Review of a [financial report/ performance report] of a public benefit entity that is not a group.**
- **The [financial report/ performance report] is prepared in accordance with a fair presentation framework.**
- **The terms of the review engagement reflect the description of the responsibility of those charged with governance for the [financial report/ performance report].**
- **The assurance practitioner has concluded an unmodified (i.e., “clean”) conclusion is appropriate based on the evidence obtained.**
- **The assurance practitioner has no other reporting responsibilities required under local law.**

Reference should be made to ISRE (NZ) 2400 to ensure that the requirements of ISRE (NZ) 2400 have been met.

INDEPENDENT ASSURANCE PRACTITIONER’S REVIEW REPORT

[Appropriate Addressee]

We have reviewed the accompanying [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.

Responsibilities of [Those Charged with Governance]¹⁹ 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];

¹⁸ May also be referred to as the Statement of Service Performance.

¹⁹ Use the term that is appropriate in the context of the engagement.

- 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*];
- 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 the [*financial report/ performance report*] that is free from material misstatement, whether due to fraud or error.

Assurance Practitioner’s Responsibilities

Our responsibility is to express a conclusion on the [*financial report/ performance report*]. We conducted our review of the financial statements in accordance with International Standard on Review Engagements (New Zealand) (ISRE (NZ)) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity*, and [*entity information and*] service performance information in accordance with the New Zealand Standard on Review Engagements (NZ SRE) 1 *Review of Service Performance Information*. Those standards require us to conclude whether anything has come to our attention that causes us to believe that the [*financial report/ performance report*], taken as a whole, does not present fairly, in all material respects, the financial position, financial performance and cashflows of the entity, [*the entity information*], and the service performance information in that the service performance information is appropriate and meaningful and prepared in accordance with the entity’s measurement bases or evaluation methods, in accordance with [*the applicable financial reporting framework*].

Those standards also require that we comply with relevant ethical requirements.

A review of the [*financial report/ performance report*] in accordance with ISRE (NZ) 2400 and NZ SRE 1 is a limited assurance engagement. The assurance practitioner performs procedures, primarily consisting of making enquiries of management and others within the entity, as appropriate, and applying analytical procedures and, as we judge to be considered necessary in the circumstances, other procedures; and evaluate the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with auditing standards issued by the External Reporting Board. Accordingly, we do not express an audit opinion on the [*financial report/ performance report*].

Other than in our capacity as assurance practitioner we have no relationship with, or interests in, the entity.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying [*financial report/ performance report on pages x to xx*] does not present fairly, in all material respects:

- 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 entity information as at December 31, 20X3; and*]
- the service performance for the year ended December 31, 20X3 in that the service performance information is appropriate and meaningful and prepared in accordance with the entity’s measurement bases or evaluation methods

Commented [LT15]: Example of “other procedures” performed removed as per October meeting. Examples are now included as application material

New wording of “judged” rather than professional judgement as presented at October

in accordance with [*the applicable financial reporting framework (e.g.: Reporting Requirements for Tier 3 Not-for-Profit Entities)*] issued by the New Zealand Accounting Standards Board.

[*Signature in the name of the assurance firm, the personal name of the assurance practitioner, or both, as appropriate*]

[*Assurance practitioner's address*]

[*Date*]

Appendix 4

(Ref: Para. A64)

Illustrations of Assurance Practitioner’s Reports with Modified Conclusions with respect to Service Performance Information

Illustration 1: Qualified conclusion on service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence.

Illustration 2: Qualified conclusion on both the financial statements and the service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence about a single element of the financial statements.

The following examples of extracts from modified assurance practitioner’s report are for guidance only and are not intended to be exhaustive or applicable to all situations. They are based on the example report in Appendix 3.

Illustration 1: Qualified conclusion on service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence.

...

Basis for Qualified Conclusion on the Service Performance Information

Supporting records for the [*significant activities undertaken*] were not readily available and we were unable to perform alternative procedures. Consequently, we have been unable to obtain sufficient appropriate evidence to support the reported [*significant activities undertaken*] and we are unable to determine whether any adjustments to these amounts are necessary.

Qualified Conclusion on the Service Performance Information

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion on the Service Performance Information paragraph, nothing has come to our attention that causes us to believe that the accompanying [*financial report/ performance report*] does not present fairly, in all material respects the accompanying the service performance for the year ended December 31, 20X3:

- in that the service performance information is appropriate and meaningful and prepared in accordance with the entity’s measurement bases or evaluation methods in accordance with [*the applicable financial reporting framework*] issued by the New Zealand Accounting Standards Board.

Conclusion on the [Entity Information and the] Financial Statements

Based on our review, nothing has come to our attention that causes us to believe that the accompanying [*financial report/ performance report*] does not present fairly, in all material respects:

- [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*] issued by the New Zealand Accounting Standards Board.

...

Illustration 2: Qualified conclusion on both the financial statements and the service performance information – the assurance practitioner is unable to obtain sufficient appropriate evidence about a single element of the financial statements, which is also reported as service performance information.

...

Basis for Qualified Conclusion

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 appropriate 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 expense*]; 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.

Qualified Conclusion

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe the accompanying [*financial report/ performance report*] does not present 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 cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X3 in that the service performance information is appropriate and meaningful and prepared in accordance with the entity’s measurement bases or evaluation methods

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

CONFORMING AND CONSEQUENTIAL AMENDMENTS

A. CONFORMING AMENDMENTS TO XRB Au1 APPLICATION OF AUDITING AND ASSURANCE STANDARDS

...

Appendix 3

This appendix lists the Review Engagement Standards to be applied in conducting review engagements.

NZ SRE 1 *Review of Service Performance Information*



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Explanation for Decisions Made

NZ SRE 1

Review of Service Performance

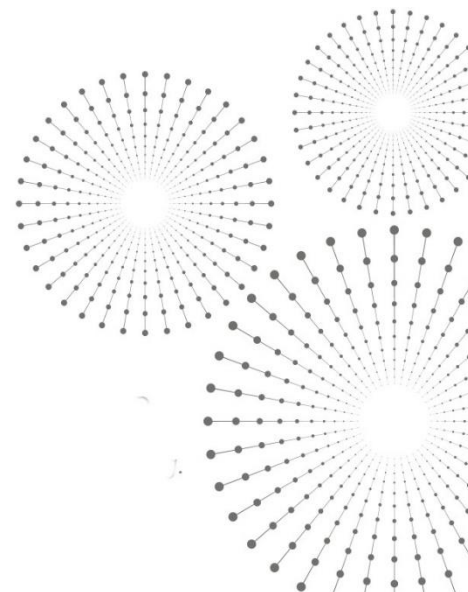
Information

January 2025

This document relates to, but does not form part of, NZ SRE 1 *Review of Service Performance Information*, which was approved in December 2024.

It summarises the major issues raised by respondents to Exposure Draft NZ SRE 1 *Review of Service Performance Information* and how the NZAuASB has addressed them.

This document is an explanatory document and has no legal status.



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Explanation for Decisions Made

NZ SRE 1 *Review of Service Performance Information*

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Objective

1. The objective of this project was to develop a separate review standard for service performance information that specifically deals with the assurance practitioner's responsibilities when service performance information is included in an entity's performance report, and the performance report is subject to a review engagement.

Background

2. Under the Charities Act 2005¹, charities with total operating expenditure between \$550,000 and \$1.1m are required to have either an audit or review of their financial statements. Charities of this size report in accordance with tier 3 reporting requirements which requires the performance report to include a statement of service performance.
3. In the Financial Reporting Act 2013 the meaning of financial statements includes the statements of an entity required to be prepared by an applicable financial reporting standard or non-GAAP standard. 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.
4. There is no international review standard specifically for service performance information as this reporting is unique to New Zealand. There is no Australian equivalent either.
5. To date 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* and EG AU 9 *Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities*.
6. The XRB developed NZ SRE 1 to create a single suite of review standards that cover the assurance practitioner's responsibilities when reviewing a charities performance report. NZ SRE 1 is required to be applied concurrently with ISRE (NZ) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioners 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.
7. The benefits of having a specific review standard for service performance information include:
 - i. Enabling an integrated approach to review general purpose financial reports that contain both financial and service performance information.
 - ii. Addressing how assurance concepts may differ to a financial statement review engagement.
 - iii. Promoting consistency and coherence by the adoption of language and concepts used in financial reporting and auditing requirements for service performance information.

Consultation

8. The XRB issued an exposure draft and consultation document in April 2024. The consultation closed in July 2024. A key focus of the project was to ensure that the work effort is appropriate for a review engagement and clarify how it may differ to an audit of service performance information. We were mindful of the need to be able to assist the assurance practitioner to understand what they need to do differently and to be clear it is a limited assurance engagement. Where the work effort was similar to an audit, the requirements were adapted from the auditing standard for service performance information to promote consistency.

¹ Section 42C(2)(b)

9. The consultation focused on the key stages of a review engagement and whether the proposed requirements reflect an appropriate level of work effort for a review engagement of service performance information. We sought feedback on the following areas:
 - i. Understanding
 - ii. Planning
 - iii. Assessment of appropriate and meaningful
 - iv. Materiality
 - v. Risk Assessment
 - vi. Response to assessed risk
 - vii. Reporting
 - viii. Application date

What we heard

10. We received submissions from an academic, an assurance practitioner, the Office of the Auditor-General and from CAANZ and CPA Australia. Feedback was also gathered through a focus group that was attended by a mix of preparers and assurance practitioners.
11. Overall, there was general support for the proposed standard.
12. However, we are aware of a number of challenges around the reporting and assurance of service performance information. The XRB are being proactive in addressing these challenges, and are working on additional guidance to support both the preparation and assurance of the statement of service performance.
13. The XRB considered whether the approval of NZ SRE 1 should be delayed whilst these concerns are addressed. However, given the recent revision of NZ AS 1 which has informed this project and the emphasis on ensuring that the standard is fit for purpose for limited assurance throughout the project, it was determined appropriate to proceed. This will avoid the delay of achieving the benefits of a specific standard to address the legislative requirement for a review of service performance information. Our focus to support implementation will be through developing guidance.
14. Below we look at the key feedback points we received, and how we responded to them.

Understanding

15. The exposure draft proposed to 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. We considered what breadth and depth of understanding should be obtained for a review of service performance information. With the exception of internal controls, we proposed that the breadth and depth of understanding needed is the same regardless of the level of assurance provided.
16. There was general support for the requirements for obtaining an understanding. One respondent however, felt a higher-level requirement would be more appropriate, given the nature of the charities seeking a review. This respondent was concerned that the number of steps proposed would be cumbersome, increasing documentation and costs to the client.
17. The XRB noted the general support and resolved that the breadth and depth of understanding required is the same regardless of the level of assurance. This depth and breadth of understanding is necessary in order for the assurance practitioner to appropriately assess whether the service performance information reported is appropriate and meaningful.

Assessment of appropriate and meaningful

18. The exposure draft leveraged the same “two step” approach that the auditor follows in the audit of service performance information but tailored for a review engagement. The two step approach requires the assurance practitioner to:
 - i. first consider whether the information reported is appropriate and meaningful, and
 - ii. second obtain evidence on whether the information is materially misstated.The term “appropriate and meaningful”, originates from the financial reporting framework.
19. Overall, we received support for consistency between the assurance and reporting standards.
20. Although the “two-step” approach was proposed, it was not explicitly stated in the objective paragraph. To be clearer that the two-step approach is fundamental in a review engagement over service performance information the objective paragraph has been updated. This emphasizes that the assurance practitioner should first consider whether the information is appropriate and meaningful prior to obtaining evidence on whether the service performance information is prepared in accordance with the entity’s measurement bases or evaluation methods, in accordance with an applicable financial reporting framework.
21. We also heard about challenges in assessing whether the information is appropriate and meaningful, due to the subjectivity of the term.
22. The XRB noted the general support and retained and further emphasized the “two-step” approach in finalizing the standard. The XRB intends to address the ongoing challenges identified with the term appropriate and meaningful, by providing clarity of the term in the reporting standard and the development of guidance.

Use of the verb to “consider” when assessing appropriate and meaningful

23. To assess whether the service performance information is “appropriate and meaningful”, the review standard requires the assurance practitioner to “consider” factors in making the assessment rather than “evaluate” those factors as required by the auditing standard.
24. Whilst respondents acknowledged that the use of the verb “to consider” indicates a lower work effort, concerns were raised whether the term would promote consistency as it isn’t clear what the difference would look like in practice.
25. The assessment of “appropriate and meaningful” is a fundamental step in an engagement of service performance information. In finalizing the standard, the XRB agreed that requiring the practitioner to “consider” rather than evaluate the factors maintains an appropriate level of work effort for a fundamental step. The verb “consider” signals a lower level of work effort than an evaluation which is required for an audit.
26. In order to promote a consistent response in assessing the service performance information we have included an example for how the assurance practitioner may document their consideration of factors in making the assessment at paragraph A24.

Materiality

27. Regardless of the level of assurance being provided, considerations of materiality are the same for the assurance practitioner. The proposed application material for materiality in NZ SRE 1 is based on the auditing standard for service performance information.
28. Respondents agreed that the materiality requirements were appropriate for a review engagement of service performance information. There was acknowledgment however of the

complexity of the area and a recommendation for more application material particularly for qualitative materiality.

29. We recognise the difficulty in applying materiality to qualitative information. Whilst some minor changes were made to further enhance the application guidance, we felt that it would be more beneficial to add further guidance outside of the standard.

Response to assessed risks

Lack of verifiable evidence

30. NZ SRE 1 requires the assurance practitioner to obtain sufficient appropriate evidence as the basis for a limited assurance conclusion on the service performance information.
31. Based on the feedback, we understand that there is difficulty in obtaining appropriate evidence. Feedback noted anecdotal evidence “that auditors struggle to verify performance information, and requirements for appropriate evidence may be driving performance selection”. Preliminary research by a respondent found that many “appropriate and meaningful” measures are moved out of statutory service performance reporting perhaps due to the cost and time to assess evidence.
32. To address these unintended consequences, we explored how the standard could support the practitioner in obtaining sufficient appropriate evidence without implying a greater work effort for a review engagement.
33. Additional application material was added at paragraph A59 to remind the assurance practitioner to consider the importance of the measure to users when assessing the sufficient and appropriateness of evidence, that multiple sources of evidence may be required and guidance to promote consistency in practice relating to judgements over reliability of evidence.

Other procedures

34. In addition to enquires and analytical procedures, the proposals require the assurance practitioner to perform “other procedures” to obtain sufficient appropriate evidence.
35. Feedback from the consultation was that it was not clear when “other procedures” would be required.
36. In response, we provided clarity that the use of “other procedures” is a matter of the assurance practitioner’s judgement and that it may only be required in “some” instances (paragraph A52). The inclusion of “other procedures” is not intended to increase work effort, but to highlight that due to the nature of service performance information enquiry and analytical procedures may not always be appropriate to obtain sufficient appropriate evidence.

Reporting

37. The exposure draft included the requirements of ISRE (NZ) 2400 and responsibilities specific to service performance information. It was proposed that the assurance practitioner’s conclusion explicitly covered the appropriate and meaningfulness of the service performance information reported.
38. There was general agreement that the proposed reporting was clear. One respondent felt that the main users of assurance reports for small clubs and charities, would have difficulty in understanding the reports and supported a more concise report.
39. We considered how reporting tools available to the assurance practitioner could be used to provide more meaningful and useful reporting to users.

40. To enhance the communication value of the report, we amended NZ SRE 1 to require the assurance practitioner to provide a description when other procedures are performed so that the nature and extent of those other procedures is understood by the user. The practitioner is also encouraged in A66 to provide additional details relevant to the review, for example, the underlying facts and information about the entity's process to select what service performance to report on.

Application Date

41. There was general support for the proposed application date of periods beginning 12 months following the issue of the standard. One respondent requested a longer period however on balance the XRB agreed that 12 months would allow sufficient time for implementation.
42. NZ SRE 1 was approved for issue in December 2024. It is applicable for periods beginning on or after 1 January 2026. Early adoption is permitted.
43. Once NZ SRE 1 is applicable, ISRE (NZ) 3000 (Revised) *Assurance engagements Other than Audits or Reviews of Historical Financial Information* will not be applicable for review engagements for service performance information.



Memorandum

Date: [Date]
To: Michele Embling, Chair External Reporting Board
From: Marje Russ, Chair NZAuASB
Subject: **Certificate Signing Memorandum:**
NZ SRE 1 Review of Service Performance Information

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *NZ SRE 1 Review of Service Performance Information* (NZ SRE 1).

Background

2. Under the Charities Act 2005¹, charities with total operating expenditure between \$550,000 and \$1.1m are required to have either an audit or review of their financial statements. Charities of this size report in accordance with tier 3 reporting requirements which requires the performance report to include a statement of service performance.
3. Financial statements, as defined in the Financial Reporting Act 2013, include the statements of an entity required to be prepared by an applicable financial reporting standard or non-GAAP standard. 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.
4. There is no international equivalent review standard that deals specifically with the review of service performance information.
5. To date 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* and EG AU 9 *Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities*. Once NZ SRE 1 is applicable, ISAE (NZ) 3000 (Revised) will no longer be applicable for review engagements of service performance information.

Domestic process

6. The development of a review standard for service performance information commenced in 2021 however was put on hold to address the Office of the Auditor-General's concerns over NZ AS 1 *The Audit of Service Performance Information* (NZ AS 1).
7. With the issue of NZ AS 1 (Revised) in July 2023, the NZAuASB reconfirmed the priority of the project to develop a review standard on SPI within the 2023/24 period.

¹ Section 42C(2)(b)

8. A sub-committee consisting of Wendy Venter and Mark Maloney was established to provide guidance to staff when required. During the development of the standard, assurance practitioners who perform reviews of service performance information were also consulted.
9. The standard is written with tier 3 charities in mind, given the legislative requirement for these entities to have either an audit or review of their financial statements.
10. The standard is to be applied in conjunction with ISRE (NZ) 2400². This is to recognise the link between the service performance information and financial information, and that the assurance practitioner should approach the review as one engagement.
11. NZ SRE 1 focuses on areas of the engagement that are specifically relevant for service performance information or requires a different approach to financial information due to the nature of the service performance information.
12. Having recently revised the auditing standard for service performance information, we were able to apply the learnings to the review standard. This included:
 - Consistency of terms from the financial reporting framework such as the term “appropriate and meaningful”.
 - Emphasis that the assurance practitioner first assesses whether the information is appropriate and meaningful, prior to obtaining evidence to support whether the reported service performance reflects actual service performance.
13. A key focus of the NZAuASB was to ensure that the work effort was appropriate for a review engagement and how it may differ to an audit of service performance information. We were mindful of the need to be able to assist the assurance practitioner to understand what they need to do differently and to be clear it is a limited assurance engagement. Where the work effort was similar to an audit, the requirements were adapted from the auditing standard for service performance information to promote consistency.
14. The NZAuASB approved and issued an exposure draft and consultation document in April 2024.
15. Outreach included a walk through webcast of the key features of the standard, the ‘Assurance Need To Know’ webinar and a virtual focus group which was attended by a mix of 15 preparers and practitioners.
16. Submissions were received from two academics, one assurance practitioner, the Office of the Auditor General and a joint submission from CAANZ and CPA Australia.
17. Overall, there was general support for the standard.
18. Respondents noted challenges such as the ambiguity of the term “appropriate and meaningful” and obtaining evidence to verify what is being reported particularly for

² ISRE (NZ) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner who is Not the Auditor of the Entity*

qualitative disclosures. Clarity was sought over the work effort to “consider” the appropriate and meaningfulness of the service performance information and over the use of “other procedures”.

19. To address concerns the key amendments to finalise the standard were:

- Including the “two-step approach” in the objective of the standard to be clearer it is fundamental to a review engagement of service performance information.
- Adding an example in application material of how considering and evaluating factors may differ to promote a consistent response in assessing whether the service performance information is appropriate and meaningful.
- Clarifying that the use of “other procedures” is a matter of judgement and only required in some instances.
- Adding application material to provide further guidance to support the practitioner in obtaining sufficient appropriate evidence.
- Improving the communicative value of reporting by requiring a description of “other procedures” performed in the report and encouraging reporting of additional details relevant to the review for example, underlying facts and information about the entity’s process to select what service performance to report.

20. At its December 2024 meeting, the NZAuASB approved NZ SRE 1 for periods beginning on or after 1 January 2026. An assurance practitioner may adopt NZ SRE 1 for periods ending after the standard takes effect i.e., 28 days after gazetting.

21. Once NZ SRE 1 is applicable, ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* will no longer be applicable for review engagements of service performance information contained within a general-purpose financial report.

Benefits and Risks of NZ SRE 1

22. 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 financial and service performance information. Practitioners will no longer need to apply two suits of standards, the ISREs (NZ) and ISAEs (NZ).
- 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 financial reporting and auditing requirements for service performance information.

23. Costs associated with the implementation of NZ SRE 1 (being a new standard include, for example updating templates, firm methodologies, education).

24. We consider that these costs will be offset by the benefits of having a specific standard resulting in higher quality assurance of service performance information.

Ongoing XRB work to enhance reporting and assurance of service performance information

25. The XRB Board has prioritised cross XRB projects to enhance both reporting and assurance of service performance information, given frustrations that have been raised at the tension between the reporting and assurance standards.

26. There is a risk in finalising NZ SRE 1 before the ongoing work to enhance standards and develop guidance to support reporting and assurance of service performance information is complete. Revising a standard shortly after its issue may add costs and could damage the reputation of the XRB.

27. The NZAuASB considered whether the approval of NZ SRE 1 should be delayed whilst these concerns are addressed.

28. We consider the risk of needing to change the standard relatively soon are low. NZ SRE 1 is scoped for tier 3 entities. The project plan outlines that any amendments proposed to the reporting requirements are to PBE FRS 48 *Service Performance Reporting* for tier 1 and 2 Not-for-profits entities, and not the tier 3 reporting requirements. Also, the development of this standard was informed by the recent revision of NZ AS 1 and an emphasis on ensuring that the standard is fit for purpose for limited assurance throughout the project. As a result the NZAuASB agreed it appropriate to proceed. This will avoid the delay of achieving the benefits of a specific standard to address the legislative requirement for a review of service performance information. Our focus to support implementation will be through developing guidance. The timing of these and other cross function solutions will be ongoing as the issues and solutions evolve.

Australian process and harmonisation with Australia

29. There is no Australian equivalent review standard that deals with the review of service performance specifically.

Privacy

30. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require the disclosure of personal information. No such consultation is required in relation to this standard.

Due process

31. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

Consistency with XRB Financial Reporting Strategy

32. The adoption of NZ SRE 1 *Review of Service Performance Information* is unique to New Zealand given the unique financial reporting requirements issued by the NZASB. There is no international or Australian equivalent.

Other matters

33. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

Recommendation

34. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

- *NZ SRE 1 Review of Service Performance Information*
- Certificate of determination

Marje Russ

Chair NZAuASB

Memorandum

AGENDA ITEM NO.	4.1
Date:	21 November 2023
To:	NZASB and NZAuASB Members
From:	Jamie Cattell and Lisa Thomas
Subject:	Update on Reporting and Assurance of Service Performance Information

Objective

The purpose of this agenda item is for the NZASB and NZAuASB (the Boards) to **PROVIDE FEEDBACK** on the proposed joint project plan and timetable to address the accounting and assurance issues identified relating to service performance reporting.

Recommendations

1. The Boards are asked to:
 - (a) **PROVIDE FEEDBACK** the project plan and timetable to address the reporting and assurance issues identified for service performance information.
 - (b) **CONSIDER** if there are other elements around the reporting and assurance for service performance information that should be considered further as part of this project.

Background

2. The XRB has been hearing frustrations (indirectly) relating to the reporting and assurance of service performance information in the Not-For-Profit (NFP) sector for Tier 1 and Tier 2 entities.
3. In an effort to be agile and respond to the frustration, several workshops were held aimed at preparers, funders and assurance practitioners and one on one discussions with those unable to attend the workshops to understand these concerns directly.
4. The XRB Board, the NZAuASB and the NZASB have received updates to reflect on the feedback from these workshops, and identified key themes, root causes and possible solutions. The three main root causes identified and presented to the Boards in October 2024 were:
 - (a) *Clarity*: There is a need to improve the clarity of the Statement of Service Performance requirements and concepts;
 - (b) *Capability and Capacity*: NFP entities currently lack capability and capacity to report on service performance information effectively; and
 - (c) *Verification*: There have been significant queries over the cost and value of the audit of service performance information.
5. XRB staff also presented these findings to the XRB Board in September 2024. The XRB Board agreed that priority action is needed to respond to these issues, with a focus on both standard setting, and guidance, to improve preparers and assurance practitioners understanding and expectations around reporting high-quality trusted service performance information.

XRB Actions

6. The accounting and assurance teams have considered the feedback and have developed project plans to respond to the feedback and issues noted.
7. The key challenges we heard from this feedback include:
 - (a) *Lack of Clarity and Guidance*: The principles-based approach in PBE FRS 48 while allowing for flexibility and judgement, has led to unclear concepts and confusion among entities, especially NFPs, about how to effectively report service performance information.
 - (b) *Differences in Accountability and Legislative Requirements*: Public sector entities and NFPs operate under different legislative frameworks and accountability mechanisms, affecting how they approach service performance reporting.
 - (c) *Capacity and Capability Constraints*: Many entities, particularly smaller NFPs, face resource limitations and lack the systems and expertise to implement the standard effectively.
 - (d) *Assurance challenges*: Assurance practitioners face difficulties assessing compliance with a principles-based standard that lacks specific criteria and obtaining evidence to verify performance measures.
 - (e) *Need for Sector-Specific Guidance*: The diversity between the public sector and NFP sector necessitates tailored guidance to address their unique needs
 - (f) *Lack of understanding on impact reporting*: Entities lack a clear understanding of how current service performance reporting fits into the broader context of evolving reporting requirements, including the progression towards more advanced outcome and impact reporting.
 - (g) *Ambiguity about the Purpose of SSPs*: There is confusion among entities regarding the primary objectives of Statements of Service Performance (SSPs), leading to inconsistent approaches in reporting and difficulties in meeting user needs effectively.
 - (h) *Subjectivity of Key Terms*: The absence of clear definitions for critical terms such as "outputs," "outcomes," and "impacts" leads to varied interpretations and inconsistent reporting across entities.
 - (i) *Necessity for Collaboration and Education*: There is a pressing need for partnerships to support ongoing education and training in service performance information reporting, particularly for entities with limited resources or experience in this area.
8. As part of developing the project plan, the following three workstreams were identified for further consideration and action:
 - (a) Amendments to the reporting standard PBE FRS 48 *Service Performance Reporting* to clarify the intended principles around service performance reporting;
 - (b) Development of guidance and education materials for preparers and assurance practitioners around the key principles of service performance reporting – tailored for public sector reporting and NFP reporting; and
 - (c) Development of guidance for assurance practitioners around applying the audit and assurance standards when dealing with service performance subject matters.
9. At this stage, we have not identified the need for amendments to the auditing standard specific to service performance information (NZ AS 1 (Revised) and the upcoming review standard for service performance information (NZ SRE 1) planned for approval by the NZAuASB in December 2024).

10. The NZAuASB has actively been working on assurance matters related to service performance information over the past years. The auditing standard for service performance information NZ AS 1 was revised in July 2023 following significant work between the XRB and Office of the Auditor-General (OAG). The revised NZ AS 1 will only be mandatory from reporting periods ending December 2024. Since then, the NZAuASB has continued to work on assurance matters related to service performance information. The XRB is currently consulting on a proposed standard for auditing less complex entities, with a New Zealand specific chapter drafted to deal with service performance information. The NZAuASB will also be asked to approve a review standard on service performance information at its December meeting. For this reason, the project plans do not currently explore amending the assurance standards, rather the focus is on supporting adoption and implementation of new or revised standards.
11. We highlight that language matters and that the accounting and assurance standards need to talk to each other. This was a key message we heard in revising NZ AS 1. We are aware that any changes in the language used in the accounting standards may have an impact on the assurance standards. The accounting and assurance teams will work closely together to ensure that any language changes to the reporting standards do not have unintended impacts on the assurance standards. NZ AS 1 (Revised) is designed to be framework neutral. It is applied to audits of entities across Tiers 1 and 2 (that use PBE FRS 48) and Tier 3 and Tier 4 reporting entities. The impact of any change in language or terminology in PBE FRS 48 may need to be considered across all other XRB standards (including Tier 3 and Tier 4 and the three assurance standards) to ensure these remain inter-operable.
12. The effective resolution of these issues requires a collective response from both the accounting and assurance teams and both Boards to ensure the terminology and language across the standards are consistent and not misinterpreted. Therefore, a joint project plan and timetable has been developed (as outlined below).
13. We would appreciate forming a joint sub-committee, with at least two members of both the NZASB and NZAuASB, to provide support to staff as required, by reviewing and providing feedback on the standard and guidance as it develops.

Changes to the reporting standard

14. The accounting team's approach to enhancing PBE FRS 48 is structured around four main pillars, each addressing specific challenges identified in the implementation of the standard:
 - (a) ***Content and definition clarification:*** We intend to propose amendments to clarify the scope and purpose of service performance reporting, ensuring that entities understand the fundamental objectives of the Statement of Service Performance (SSP) and the expectations around the nature of information it should contain. This includes:
 - Modifying the objective and scope of the standard to emphasise that the SSP is primarily an accountability document focused on reporting performance measures that faithfully represent an entity's outputs and closely linked outcomes within a reporting period.
 - Reintroducing key definitions that were removed from the final Standard, such as "output" and "outcome" (and potentially "impact") to provide clearer guidance on the purpose and scope of PBE FRS 48 while maintaining flexibility.
 - Adding authoritative guidance on identifying primary users and their information needs to help entities select appropriate and meaningful performance measures and communicate these in an engaging manner which aids in users' decision-making.

- (b) **Conceptual Framework alignment:** To improve the consistency and understandability of the nature of service performance information which should be reported in general-purpose reporting, we propose to align the verifiability considerations required under PBE FRS 48 to the existing *Conceptual Framework*.

This will help ensure entities think consistently across their financial and non-financial reporting when considering the information which should be reported, the expectations of users and the evidence required to support assertions.

- (c) **Introducing a Basis of Preparation:** To address verification challenges and support more consistent application, new requirements for a basis of preparation of service performance information will be proposed.

The proposed basis of preparation will function similar to accounting policies in financial statements, providing a structured approach to documenting how entities identify user needs, select performance measures, and assess that their performance measures are an accurate reflection of their service performance (consideration of how an “appropriate and meaningful” mix of performance measures are determined).

Enhanced disclosure requirements will be proposed to explain:

- The process used to identify and select relevant performance measures;
- The measurement approach applied to each relevant performance measure;
- The rationale for changes in selection and measurement approach; and
- Any key assumptions or limitations or judgements inherent in performance measurement.

We will also explore whether changes are needed to the “appropriate and meaningful” concept to ensure that preparers consider how the reported performance measures link through to organisational strategy and intended outcomes, consider the principles within the *Conceptual Framework* and consider that individual performance measures, and the overall collection of performance measures provide an accurate representation of performance in the period.

- (d) **Structural changes:** We have analysed the existing principles of PBE FRS 48 from a public sector lens and a NFP lens and have identified that the service performance reporting principles included within the standard are appropriate for both sectors, as the principles were designed to ensure high quality of service performance irrespective of the nature of the entity.

However, recognising that there are significant differences between public sector and NFPs, sector-specific guidance will be proposed to the standard (through authoritative appendices). This guidance will address the different environment faced by each sector, such as legislative differences and the development of performance frameworks.

For public sector entities, the guidance will focus on integrating service performance information with existing legislative requirements and government reporting frameworks. For NFP entities, the focus will be on framework development, linking outputs to outcomes and documenting judgments and assumptions.

15. The amendments proposed to PBE FRS 48 will not be treated or communicated as a Post-Implementation Review (PIR). This project is to propose targeted amendments in response to the feedback received about the practical difficulties in applying and assuring service performance information.
16. If amendments are made to the standard at this time, then a formal PIR will occur in due course, after there has been sufficient time for the updated standard to be implemented by preparers.

This is considered the most efficient way to respond to the immediate feedback and allow for a full PIR to occur, once the standard has been operating as intended for a period of time.

Guidance and Education material for preparers and practitioners

17. To support preparers and assurance practitioners in applying and understanding the standard, non-authoritative implementation guidance is planned. This guidance will provide more practical examples and seek to encourage a consistent understanding of key concepts across preparers and assurance practitioners, so that reporting and assurance expectations are harmonised.
18. Guidance is planned to cover the following areas, but is planned to be broken down into shorter documents which will be more understandable to users:
 - (a) *What a good SSP as an accountability document looks like* – This could include “one pager” practical examples of performance measures and snapshots to assist entities in PBE subsectors (for example: health or education) to guide what types of measures to report, potential assurance approaches to different types of measures, with the aim of developing effective performance reporting and assurance practices, in light of the different considerations across the public and NFP sectors;
 - (b) *How outputs closely related to outcomes and how each of those may be used to inform broader outcome and impact reporting over time* – This will cover topics like focusing SSP reporting on outputs and closely-linked outcomes and practical examples of how multiple output measures over time can be used to proxy outcomes and impacts over time and how this may be communicated through an entity’s reporting outside of the SSP.
 - (c) *Practical things to consider when thinking about high quality service performance information reporting* – This could include topics such as establishing internal controls around service performance measurement and reporting, understanding preparer and assurance practitioner responsibilities, ensuring finance staff have sufficient resources and time, thinking about strategy and user needs through the reporting period and not just at year-end and engaging with auditors early around selected performance measures and measurement techniques.
 - (d) *Guidance on key principles when considering how to determine which performance measures to report and assessing an appropriate and meaningful mix of measures* – This could include topics such as identifying and considering user needs, selecting appropriate measures, and balancing quantitative and qualitative information when communicating service performance information.
19. Across the guidance, we will also look to reinforce key messages and principles around considering how the reported information is verifiable and engaging to users, how entities should consider the causality of their actions, attribution of their responsibilities and the degree of separation and external factors which impact on their desired impacts.
20. The guidance is expected to be particularly helpful to entities and practitioners in the NFP sector who face greater difficulties in preparing and assuring service performance information and will be focus-tested with NFP entities to ensure it is suitable for their needs as part of its development.
21. While we plan to produce public sector specific guidance, we intend to do so after the NFP specific guidance. As public sector entities have more established service performance reporting practices, they have less need for additional guidance. Consequently, we have prioritised creating guidance specific for NFP at this stage.

Guidance for assurance practitioners

22. To reinforce the principles contained within the current and upcoming assurance standards and to deal with some of the challenges raised in recent workshops the development of guidance is planned, focussed on the practitioner on obtaining evidence.
23. Identified topics for guidance include:
- (a) *How do you verify SPI, particularly qualitative measures* – This guidance will focus on what sources and types of evidence can be used, and how they may differ to a financial statement audit. Assurance practitioners will be encouraged to consider multiple sources of evidence, and how to assess the relevance and reliability of the evidence. Possible assurance approaches to qualitative measures will be explored, as well as the impact on an engagement when the assurance practitioner is unable to obtain evidence or if there are privacy issues with the data.
 - (b) *Internal controls* – This guidance will discuss how controls over service performance information may be limited or simple compared to financial controls and the impact this may have on the engagement. Implications on the assurance engagement will also be explored when there are no internal controls or if internal controls are not adequate.
 - (c) *What is sufficient appropriate evidence* – Key assurance concepts will be covered including the level of assurance being provided i.e., limited v reasonable, exercising professional scepticism and judgement, and the consideration of materiality.
 - (d) *Materiality for non-financial information* – This guidance will potentially be a case study or scenarios to demonstrate the application material in the assurance standards.
 - (e) *Issue areas applying the wider ISAs to service performance information* – Applying sampling techniques to service performance information has been identified as an area of concern when applying the wider ISAs. This guidance will focus particularly on qualitative measures.

Timetable

24. The following project timetable is planned across accounting and assurance activities.

Month	Accounting Activities	Assurance Activity
November 2024	<ul style="list-style-type: none">• Review existing legislative requirements• Begin stakeholder mapping• Collate data on currently reported performance measures• Identify guidance topics	<ul style="list-style-type: none">• Monitor the developing proposals to amend PBE FRS 48 with an assurance lens• Identify joint guidance topics• Begin drafting assurance guidance
December 2024	<ul style="list-style-type: none">• Present preliminary views to NZASB and confirm due process intentions• Begin drafting amendments for clarification• Develop consultation strategy	<ul style="list-style-type: none">• As above as work on PBE FRS 48 continues• One on one meetings with practitioners and regulators to better understand issues to inform assurance guidance• Continue drafting assurance guidance
January 2025	<ul style="list-style-type: none">• Finalise draft amendments• Begin developing reporting roadmap	<ul style="list-style-type: none">• Continue drafting assurance guidance
February 2025	<ul style="list-style-type: none">• Present draft amendments to NZASB• Begin drafting guidance	<ul style="list-style-type: none">• Explore progress on assurance guidance with the NZAuASB

		<ul style="list-style-type: none"> • Begin drafting joint “preparer/assurance” guidance with the accounting team
March 2025	<ul style="list-style-type: none"> • Continue drafting guidance • Hold feedback /roundtable sessions with stakeholders to test drafted guidance materials and proposed changes to the standard 	<ul style="list-style-type: none"> • Obtain feedback from practitioners on draft assurance guidance • Refine draft joint “preparer/assurance guidance” • Refine assurance guidance
April 2025	<ul style="list-style-type: none"> • Present combined ED and draft guidance package for approval to consult • Launch public consultation 	<ul style="list-style-type: none"> • Present draft joint guidance for approval • Approval of drafted assurance guidance
May 2025	<ul style="list-style-type: none"> • Conduct sector consultations on proposals 	<ul style="list-style-type: none"> • The consultation and development of guidance will be a continuous and iterative process. We will continue support the implementation of the assurance standards for service performance information, by engaging with stakeholders to identify issues and address concerns.
June 2025	<ul style="list-style-type: none"> • Conduct sector consultations on proposals 	
July 2025	<ul style="list-style-type: none"> • Process early consultation feedback • Continue guidance development 	
August 2025	<ul style="list-style-type: none"> • Finish processing ED feedback • Present feedback to the NZASB • Update amendments and guidance 	
September 2025	<ul style="list-style-type: none"> • Finish revising amendments and guidance based on feedback 	
October 2025	<ul style="list-style-type: none"> • Seek approval to issue final amendments to NZASB and determine timing of PIR • Publish all guidance material 	<ul style="list-style-type: none"> • Publish all joint guidance material
November 2025	<ul style="list-style-type: none"> • Education and awareness outreach of amendments and guidance 	<ul style="list-style-type: none"> • Education and awareness outreach of guidance
December 2025	<ul style="list-style-type: none"> • Education and awareness outreach of amendments and guidance 	<ul style="list-style-type: none"> • Education and awareness outreach of guidance

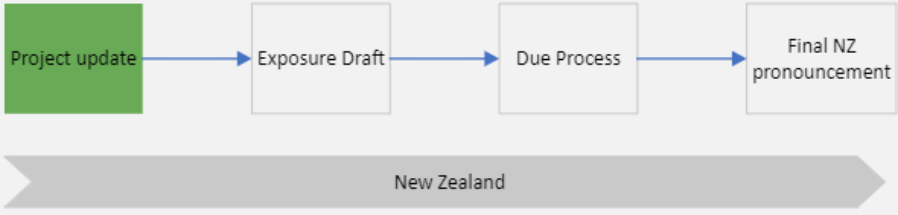
Date: 21 November 2024
To: NZASB Members and NZAuASB Members
From: Tereza Bublikova, Sharon Walker
Subject: Going concern – Update on the IAASB project

COVER SHEET

Project priority and complexity

Project purpose	<p><u>NZASB perspective</u> – Consider whether the accounting standards in relation to going concern disclosures remains appropriate for NZ reporting entities, given recent international developments and upcoming changes in the auditing standard around going concern and consider whether domestic project on going concern disclosures should be initiated.</p> <p><u>International Auditing and Assurance Standards Board (IAASB) perspective</u> - Promote consistent practice and behaviour, strengthen the auditor’s evaluation of management’s assessment of going concern and enhance transparency with respect to the auditor’s responsibilities and work related to going concern.</p>
Cost/benefit considerations	Consideration included within this memo.
Project priority	<p>Medium</p> <p>Any changes in accounting standard requirements would affect all Tier 1 and Tier 2 NZ entities.</p>

Overview of agenda item

Project status	
Board action required	<p>Low complexity</p> <p>NOTE the project update and PROVIDE FEEDBACK on the staff recommendations. This is primarily an education session and discussion of impacts of the coming IAASB standard on auditing of going concern and consequently considering whether there should be an update to our accounting standards to respond to the proposed changes.</p>

Purpose and introduction¹

1. The purpose of this memo is to:
 - a) Provide update on the International Auditing and Assurance Standards Board (IAASB) project on going concern; and
 - b) Seek the NZASB's feedback on the staff recommendation **NOT** to add a domestic project on additional going concern disclosures at this stage.

Recommendation

2. We recommend that the NZASB:
 - a) **NOTE** the update on the IAASB's project on going concern;
 - b) **AGREE NOT** to add a domestic project on additional going concern disclosures at this stage, but rather keep monitoring IASB educational material activities regarding going concern (if any) and, when relevant, raise awareness about the new audit requirements and their potential impact on reporting entities and auditors; and
 - c) **PROVIDE FEEDBACK** on staff's analysis and whether there are further matters which should be considered.
3. We recommend that the NZAuASB **NOTE** and **PROVIDE FEEDBACK** on staff's analysis and whether there are further matters which should be considered.

Structure of this memo

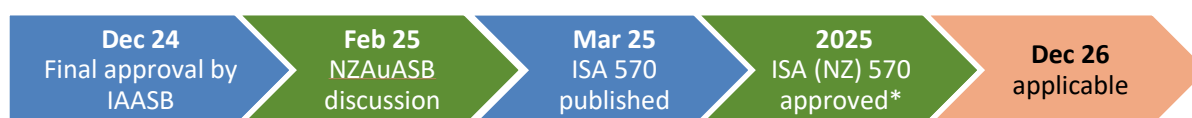
4. This memo includes the following sections.
 - a) [Background - the IAASB project on going concern](#)
 - b) [Going concern disclosure requirements](#)
 - (i) [Proposals in the IAASB's \[draft\] ISA 570 \(revised 2024\)](#)
 - (ii) [Implications of the auditing standards](#)
 - (iii) [IASB going concern project history and position](#)
 - (iv) [XRB going concern disclosures and staff guidance](#)
 - (v) [Further IASB considerations around going concern](#)
 - (vi) [Staff considerations - domestic project & harmonisation with Australia](#)
 - (vii) [Staff analysis](#)
 - (viii) [Staff recommendations](#)
 - (ix) [Question for the Boards](#)
 - c) [Definition of 'material uncertainty' and clarification of 'may cast significant doubt'](#)
 - (i) [Staff considerations](#)

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

- (ii) [Staff recommendations](#)
- (iii) [Question for the Boards](#)
- d) [Commencement of the period of going concern assessment](#)
 - (i) [IASB position](#)
 - (ii) [Staff considerations](#)
 - (iii) [Question for the Boards](#)
- e) [Appendix – extracts of relevant paragraphs from \[draft\] ISA 570 \(Revised 2024\)](#)

Background - the IAASB project on going concern

5. The IAASB noted that corporate failures across the globe in recent years and conditions, such as war and the global pandemic, has led to stakeholder demands for enhanced transparency on going concern, highlighted issues pertaining to the auditor’s responsibilities and work related around going concern and emphasised the need for a more robust going concern auditing standard².
6. In response in April 2023, the IAASB issued [Exposure Draft](#) proposing revised International Standard on Auditing 570 (Revised 202X), *Going Concern* (ED 570). The comment period closed in August 2023 followed by IAASB’s deliberation of the feedback received.
7. The IAASB considered constituent’s feedback and reflected it in the [draft standard ISA 570 \(Revised 2024\), Going Concern](#) ([draft] ISA 570 (Revised 2024)) which is expected to be approved at the IAASB’s December 2024 meeting. If approved, the [draft] ISA 570 (Revised 2024) will be effective for audits of financial statements for periods beginning on or after 15 December 2026.
8. Once approved the International Standard on Auditing 570 (Revised 202X), *Going Concern* (ISA 570 (revised 2024)) will be assessed by the NZAuASB for adoption in New Zealand. The final standard will be considered by the NZAuASB across 2025.
9. The expected timeline is outlined below



**Please note there will be no further public consultation of the ISA (NZ) 570 in NZ as the feedback was already collected when consulting on ED 570.*

10. [Draft] ISA 570 (Revised 2024) is expected to introduce several changes and enhancements to the existing audit requirements. We have identified three areas which directly overlaps with the accounting standards:
 - a) Requirements enhancing transparency about going concern in the auditor’s report – see paragraphs 12–47 of this memo;
 - b) Introduction of the definition of ‘Material Uncertainty (Related to Going Concern)’ and

² Quoted from the IAASB’s Exposure Draft Proposed International Standard on Auditing 570 (Revised 202X) *Going Concern* section *Drivers for the Project*.

clarification of the phrase ‘May cast significant doubt’ – see paragraphs 48–56 of this memo; and

- c) Change of the commencement date of the period of management’s assessment of the entity’s ability to continue as a going concern – see paragraphs 57–68 of this memo.

11. The diagram below provides summary of the above-mentioned changes to ISA 570 as in the [draft] ISA 570 (Revised 2024), the corresponding IASB position and XRB recommendations (outlined further below):

[Draft] ISA 570 (Revised 2024)	IASB Position	XRB Staff Recommendation
Explicitly state in audit report: <ul style="list-style-type: none"> • Going concern basis is appropriate; and • No material uncertainty identified 	<ul style="list-style-type: none"> • No changes to IAS 1 needed – paragraphs 25 and 122 are sufficient • Potentially update IFRS educational material 	<ul style="list-style-type: none"> • No domestic project at this stage • Keep monitoring the IASB activities
New definition of ‘material uncertainty’ and clarification of ‘may cast significant doubt’	No changes needed – No inconsistency with IFRS	No action at this stage
Change commencement of going concern assessment	No changes needed – 12 months is a minimum period, not an absolute cap	No action at this stage

Going concern disclosure requirements

Proposals in the IAASB’s [draft] ISA 570 (Revised 2024)

12. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the [draft] ISA 570 (Revised 2024) requires the auditor for all entities to explicitly state in a separate section of the auditor's report with the heading “Going Concern” that:

- a) In the context of the audit of the financial statements as a whole, and in forming the auditor’s opinion thereon, the auditor concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- b) Based on the audit evidence obtained, the auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern; and
- c) The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report and are not a guarantee as to the entity’s ability to continue as a going concern.

In addition, for listed entities³ when significant judgements are made by management in

³ In New Zealand the term ‘listed entity’ is replaced with ‘FMC reporting entity considered to have a higher level of public accountability’.

concluding that there is no material uncertainty related to events or conditions that may cast doubt on the entity’s ability to continue as a going concern, the auditor should in the audit report:

- (a) Include a reference to the related disclosure in the financial statements; and
- (b) Describe how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern.

13. The table below summarises the going concern disclosures required by the current NZ Accounting Standards (NZ IAS 1/NZ IFRS 18, FRS 44, PBE IPSAS 1) and related auditor reporting requirements by [draft] ISA 570 (Revised 2024) in circumstances where the auditor determines that adequate disclosure has been made.. Extracts of relevant paragraphs from the [draft] ISA 570 (Revised 2024) are provided in the [Appendix](#).

Table 1 - Going concern disclosure requirements

Circumstances	Basis of preparation	Disclosure requirements in NZ financial statements - NZ accounting standards	Transparency required in an audit report - IAASB [draft] ISA 570 (Revised 2024), <i>Going Concern</i>
1. No alternative but to cease trading or liquidate, or intention to do so	Going concern is <u>not</u> appropriate and an alternative basis of preparation has been used.	<ul style="list-style-type: none"> Disclose that going concern is not the basis of preparation and the reason why the entity is not regarded as a going concern (NZ IAS 1.25 /PBE IPSAS 1.38); and Explain what basis is used to prepare the financial statement (for example – Liquidation basis) (NZ IAS 1.25 /PBE IPSAS 1.38). 	Include an “Emphasis of Matter” paragraph alerting users of the financial statements that the financial statements are prepared in accordance with a special purpose framework (as required by ISA 800).

Circumstances	Basis of preparation	Disclosure requirements in NZ financial statements - NZ accounting standards	Transparency required in an audit report - IAASB [draft] ISA 570 (Revised 2024), <i>Going Concern</i>
<p>2. <u>No</u> events or conditions that cast doubt on ability to continue as a going concern are identified</p>	<p>Going concern is appropriate</p>	<ul style="list-style-type: none"> Disclose that going concern has been used as the basis of preparation (NZ IAS 1.112(a) / PBE IPSAS 1.127(a)) 	<ul style="list-style-type: none"> Include a separate section "Going Concern", and State that⁴ <ul style="list-style-type: none"> The auditor concluded that management's use of the going concern basis is appropriate; The auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and The auditor's conclusions are not a guarantee as to the entity's ability to continue as a going concern.
<p>3.</p> <ul style="list-style-type: none"> Events or conditions are identified, but <u>No</u> material uncertainties are identified Adequate disclosure is made in the financial statements 		<p>Disclose:</p> <ul style="list-style-type: none"> Basis of preparation (NZ IAS 1.112(a) / PBE IPSAS 1.127(a)) Information about the significant judgements and assumptions made (FRS 44.12A.2 / PBE IPSAS 1.41.2) 	
<p>4.</p> <ul style="list-style-type: none"> Events or conditions are identified, Material uncertainties exist, and Adequate disclosure is made in the financial statements 	<p>Going concern is appropriate</p>	<p>Disclose:</p> <ul style="list-style-type: none"> Basis of preparation (NZ IAS 1.112(a) / PBE IPSAS 1.127(a)) Information about events or conditions giving rise to material uncertainty (FRS 44.12A.1(a)(b) / PBE IPSAS 1.41.1(a)(b)); Information about the management's plans to mitigate the effect of those events or conditions (FRS 44.12A.1(c) / PBE IPSAS 1.41.1(c)); and 	<ul style="list-style-type: none"> Include a separate section under the heading "Material Uncertainty Related to Going Concern" Include a reference to the related disclosure(s) in the financial statements⁵. State that <ul style="list-style-type: none"> These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern The auditor's opinion is not modified in respect of the matter

⁴ For an audit of financial statements of a listed entity, when significant judgements are made by management in concluding that there is no material uncertainty related to events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (i.e. the third scenario):

- (i) Include a reference to the related disclosure(s) in the financial statements; and
- (ii) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

⁵ For an audit of financial statements of a listed entity, also describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern.

Circumstances	Basis of preparation	Disclosure requirements in NZ financial statements - NZ accounting standards	Transparency required in an audit report - IAASB [draft] ISA 570 (Revised 2024), <i>Going Concern</i>
		<ul style="list-style-type: none"> • Information about how assets and liabilities may not be realised/discharged in the normal course of business (FRS 44.12A.1(d) / PBE IPSAS 1.41.1(d)); and • Information about the significant judgements and assumptions made (FRS 44.12A.2 / PBE IPSAS 1.41.2) 	<ul style="list-style-type: none"> ○ The auditor concluded that management's use of the going concern basis is appropriate. ○ The auditor's conclusions are not a guarantee as to the entity's ability to continue as a going concern.

Implications of the auditing standards

14. The proposed requirement to explicitly state that the use of the going concern basis is appropriate and that no material uncertainties were identified, raised several concerns mainly in the situations where there is no material uncertainties related to the going concern and where the going concern basis is appropriate (scenario 2 and 3 of the Table 1).
15. Auditors have pointed out that current financial reporting standards do not require an explicit statement that the going concern is appropriate and how this was determined. The preparers are required to disclose the basis on which the financial statements are prepared and therefore provide only implicit assertion.
16. Requiring auditors to make explicit statements, without a disclosure requirement for management, could imply that auditors have a greater responsibility than management about going concern and may widen the expectation gap. The intended users may place more reliance on the auditor when accepting the going concern basis, rather than the entity.
17. Auditors have encouraged the IAASB to continue discussions with the IASB and the IPSASB to ensure that a holistic approach is taken so that an appropriate balance between management, those charged with governance and auditor responsibilities is maintained.

IASB going concern project history and position

18. In January 2013, the IFRS interpretation Committee (IFRIC) recommended the IASB a narrow-focus amendment to IAS 1 with the objective to ensure that disclosures about going concern were timely and relevant. The IFRIC limited the project to two questions:
 - a) When should an entity be required to disclose information about material uncertainties related to events or circumstance that cast significant doubts upon the entity's ability to continue as a going concern?
 - b) What is the objective of those disclosures about material uncertainties about the entity's ability to continue as a going concern and what disclosures should be required?

19. The IFRIC proposed that disclosure is triggered by the existence of events or conditions that, by their magnitude, likelihood and timing, cast significant doubt upon the entity's ability to continue as a going concern. The proposal required disclosures about both the event or condition, and management's planned mitigating actions.
20. The IASB acknowledged that information about the events and conditions that cast significant doubt upon an entity's ability to continue as a going concern is useful to investors and creditors. However, the IASB members were concerned about:
 - a) The sensitive nature of going concern disclosures;
 - b) Risks of 'self-fulfilling prophecy' – i.e. that disclosure about events or conditions that cast significant doubt about an entity's ability to continue as a going concern would result in a loss of confidence in the entity; and
 - c) Concerns over boilerplate disclosures - even with the criteria of magnitude, likelihood and timing, too many events or conditions might be disclosed which would obscure relevant disclosures.
21. At their March 2013 and November 2013 meeting the IASB discussed the IFRIC's proposal and decided not to develop those proposals further, on the basis that the concerns identified were considered significant and could cause issues around investors understanding the going concern basis.

XRB going concern disclosures and staff guidance

22. The COVID-19 pandemic put a greater focus on entities' going concern. It highlighted the diversity in the level of disclosures, with some entities disclosing underlying assumptions supporting its going concern position and the judgements involved, while others provided little disclosure. During the heightened uncertainty, investors, auditors and regulators collectively sought greater clarity and consistency in going concern disclosures.
23. In August 2020, in response to those concerns, the XRB amended NZ FRS 44 and PBE IPSAS 1 and introduced new specific disclosure requirements (to the extent that they are not disclosed under existing NZ IAS 1/PBE IPSAS 1 requirements) for situations when the going concern assessment involved:
 - a) The application of significant judgement; and
 - b) The consideration of material uncertainties.
24. These amendments aligned accounting disclosure requirements with the audit requirements, as specified in paragraph 19 of ISA (NZ) 570 to provide additional information about the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and where there is a material uncertainty, explicit statement that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.
25. To raise awareness of going concern requirements and related disclosure requirements to respond to increasing stakeholder demands, the XRB in 2023 also issued staff guidance *Spotlight on Going Concern Disclosures* for [for-profit](#) and [not-for-profit](#) entities.

26. This guidance helps preparers decide which information to consider when assessing whether the going concern assumption is appropriate and what to consider when drafting relevant going concern disclosures when they exercise significant judgement and consider material uncertainties and reinforces the disclosures needed when there are risks around the going concern assumption.

Further IASB considerations around going concern

27. In 2021, many respondents to the IASB Third Agenda Consultation (including the [NZASB](#)) identified Going Concern as a high priority project.
28. The IASB decided not to add this project to their agenda and in their July 2022 [Third Agenda Consultation Feedback Statement](#) explained that the IASB already considered this project in 2013 (through the IFRIC decisions above) and decided not to take further actions. They also pointed out two papers issued by IFAC regarding going concern:
- a) The IFRIC agenda decision [Disclosure requirements relating to assessment of going concern \(IAS 1\)](#) (Jul 2014) highlighting that the paragraph 122 of IAS 1 applies to situation where management concludes that there are events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern but after considering all relevant information, including planned mitigations, concludes that no material uncertainties remains (scenario 2 of the Table 1). This means in such situation, the entity should disclose judgements made in reaching this conclusion.
 - b) IFRS educational material [Going concern—a focus on disclosure](#) (Jan 2021) supporting consistent application of going concern disclosure requirements and assessment.
29. We understand that the IASB is considering updating the IFRS educational material and may include additional matters around going concern disclosures. However, it is unlikely that the IASB would add project on going concern to amend IAS 1/IFRS 18 into their work agenda in the foreseeable future.

Staff considerations – domestic project

30. To address the concerns noted above, the NZASB could commence a domestic project to amend NZ FRS 44 and PBE IPSAS 1, with an objective to bridge the gap between the accounting and auditing standards, similar to actions taken in August 2020. Potential amendments to the accounting standards could include:
- a) Provide an explanation on what 'going concern' means and positive statement that the going concern basis is appropriate;
 - b) Provide a positive statement that no material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern or other sources of doubt have been identified (where relevant); and
 - c) Disclose information used by management to support those assessment.
31. We note that paragraphs [112\(a\) of NZ IAS 1](#) / [127\(a\) of PBE IPSAS 1](#) already require the reporting entity to disclose the basis on which the financial statements are prepared, which provides an implicit statement that the management believe that the going concern is an

appropriate basis. Any instance of not considering the going concern assumption to be appropriate is required to be disclosed under paragraphs [25 of NZ IAS 1](#) / [38 of PBE IPSAS 1](#).

32. Section 201 of the Companies Act 1993 requires all companies to produce GAAP compliant financial statements which must be signed by two directors of the company (or one director if the company only has one director). This means directors have responsibility to ensure the going concern disclosures within financial statements are appropriate in line with the NZ accounting standards, and this will be communicated through the director's signatures on the financial statements.
33. The threshold required to not use going concern as the basis of preparation of the financial statements is set out in the accounting standards and is a relatively high bar around management's intentions and no realistic alternatives. The paragraph 25 of NZ IAS 1⁶ states that:

“An entity shall prepare financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.”

34. Section 135 of the Companies Act 1993 also imposes duties on Director's to avoid reckless trading and carry out business in a manner which will likely create a substantial risk of serious loss to the company's creditors. These responsibilities have also been upheld by the New Zealand Courts, as noted in the [Mainzeal](#) case in 2023, which noted that the directors in that case did not appropriately communicate the recoverability of their assets on the balance sheet. This reinforces that directors have duties to ensure information within the financial statements around the on-going operations of the entity are appropriate.

Harmonisation with Australia

35. New Zealand going concern disclosure requirements are not harmonised with Australia, as the Australian Accounting Standard Board (AASB) has remained aligned to the IASB requirement and have not introduced additional going concern disclosures. At this stage, the AASB hasn't intention to amend the going concern disclosures in the Australian accounting standards.

Staff analysis

36. An entity in a 'close call' situation (i.e. when material uncertainties about entity's ability to continue as a going concern remain after considering management actions) is already required to provide additional disclosures in New Zealand (as outlined in Table 1 scenario 4). Those additional disclosures are in line with the [draft] ISA 570 (Revised 2024).
37. Therefore, the greatest risk is present when an entity is a going concern and is in good financial condition and does not have any material uncertainties. These entities only disclose their basis of preparation without any further details (as outlined in Table 1 scenarios 2) or disclose information about significant judgments and assumptions (as outlined in Table 1 scenarios 3). In these situations, the auditor including a positive opinion on an entity's going concern, may be a stronger statement about the appropriateness of the going concern

⁶ Paragraph 38 of PBE IPSAS 1 provides similar statement, in the context of PBEs.

assumption than what management themselves include in the financial statement disclosures.

38. The exception-based nature to going concern disclosures within the NZ accounting standards currently allows for users to easily identify outliers and exceptions compared to their expectations that an entity is a going concern.
39. Requiring additional going concern disclosures when there are no material uncertainties could undermine the value of the financial statements when there are going concern issues to be highlighted. The additional disclosures may obscure and distract from other material information and actual risks disclosed.
40. Entities in a good financial condition are likely to follow the paragraph 26 of NZ IAS 1 which states:

“When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate without detailed analysis.”

41. In line with the requirements above most of the entities assess their going concern based on cash-flow analysis. We note that NZ IFRS 7 *Financial Instruments: Disclosures* already require disclosure of liquidity risks (see box below for more details). As a result, users of entities which are in good financial condition already have information about maturity analysis for financial liabilities and description of how the entity manages their liquidity risk.

Extract from NZ IFRS 7 *Financial Instruments: Disclosures*

Appendix A

Defined terms

...

liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.
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...

Liquidity risk

39* An entity shall disclose:

- (a) a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
- (b) a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (see paragraph B11B).
- (c) a description of how it manages the liquidity risk inherent in (a) and (b).

42. Additional disclosures would require additional compliance and potentially also additional audit cost for the preparers to ensure additional statements are audited, while additional benefits are limited, as users of financial statements of entities which are in good financial

condition are not provided with new information.

43. Additional disclosures would address the expectation gap around auditor’s responsibilities and management’s responsibilities around going concern. However, there may be limited benefits for other users of the financial statements, such lenders and institutional investors, who would likely have access to additional specific reporting (bank covenant forecasts and market analysis liquidity ratios) to assist with their decision making and would not likely rely upon going concern disclosures contained within financial statements.
44. Overall, we do not believe that additional going concern disclosures as suggested in paragraph 30 across all financial statements would provide any additional value to the users of the financial statements and that sufficient requirements are already in place to ensure sufficient disclosure of non-standard use of the going concern basis.

Staff recommendations

45. Based on the analysis above we recommend:
 - a) **NOT** to commence domestic project on going concern disclosures at this stage; and
 - b) Keep monitoring the IASB educational developments around going concern and determine next steps (when relevant).
46. We propose to bring this topic back for the NZASB’s consideration in Q3 next year, once the NZAuASB has considered the impact of the final revised version of ISA (NZ) 570 on the New Zealand auditing standards.
47. We recommend the accounting team works together with the assurance team to inform New Zealand reporting entities about the new audit requirements and their potential impact on interaction between the reporting entities and their auditors (e.g. through Need-to-know webinars or updated staff guidance).

Questions for the Boards

- Q1. Does the NZASB **AGREE** with the staff recommendations in paragraphs 45-47?
- Q2. Does the NZAuASB have any **FEEDBACK** on the staff recommendations in paragraphs 45-47?

Definition of ‘material uncertainty’ and clarification of ‘may cast significant doubt’

48. In the [draft] ISA 570 (Revised 2024), the IAASB introduced a new definition for the concept “Material Uncertainty (Related to Going Concern)” and clarification of the phrase “may cast significant doubt”.
49. Paragraph 10 of the [draft] ISA 570 (Revised 2024) defines material uncertainty as follows:

“Material Uncertainty (Related to Going Concern)—An uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern. “May cast significant doubt” is used to refer to circumstances where the magnitude of the potential impact and likelihood of occurrence of the identified events or conditions are such that unless management’s plans for future actions mitigate their effects, the entity may be unable to realize its assets and discharge its liabilities in the

normal course of business and continue its operations for the foreseeable future. (Ref: Para. A5–A6)”

50. Paragraph A6 of the [draft] ISA 570 (Revised 2024) further clarifies that:

“Plans for future actions may include, for example, that management realizes assets sooner than originally intended or obtains alternative or additional sources of liquidity to support the entity’s ability to continue as a going concern (also see paragraphs 26–28). In such circumstances, the timing of the events or conditions giving rise to the uncertainty may also be relevant. For example, the shorter the time period in which management must take action, the more significant the uncertainty may be about the entity’s ability to continue as a going concern.”

51. The IAASB consulted on the new definitions with the IASB and IPSASB and believes that the proposed definition does not give rise to inconsistencies with recognised financial reporting frameworks, given that the term “material uncertainty” remains undefined by the IFRS® Accounting Standards.⁷

52. The New Zealand respondents to the ED 570 noted that the proposed definitions are consistent with financial reporting frameworks applicable in New Zealand. At the same time, they encourage the IAASB to continue to engage with the IASB and the IPSASB to assure consistency in the meaning of terminology across both reporting and auditing standards.

Staff considerations

53. The audit and assurance team have not heard any concerns about the IAASB’s proposed definition of ‘material uncertainty’ and clarification of ‘may cast significant doubt’ from the New Zealand constituents. However, these definitions have not been tested with NZ preparers.

54. Our initial analysis is that the proposed definitions should not give rise to issues in applying the NZ accounting standards, given the principles of the going concern basis, and the process entities would need to go through to identify and assess material uncertainties when there are events or conditions which may impact on the appropriateness of the going concern assumption.

55. We have not heard any demand from preparers to introduce these definitions into the NZ accounting standards and we have not heard concerns around preparers assessing what constitutes a material uncertainty or what may cast significant doubt. The current NZ accounting standards allows the use of judgement in determining and assessing material uncertainty and includes requirements for this to be disclosed to users when such matters are identified.

⁷ Paragraph 25 of NZ IAS 1 and paragraph 38 of BPE IPSAS 1 only require disclosing ‘material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern’. The standards don’t define neither the term ‘material uncertainty’ nor the phrase ‘may cast significant doubt’.

Staff recommendations

56. We recommend:
- a) at this stage **NOT** take any action regarding the definition of ‘material uncertainty, given the current principles and disclosure requirements within the NZ accounting standards; and
 - b) Keep monitoring whether the new definitions rise any concerns to preparers.

Questions for the Boards

- Q3. Does the NZASB **AGREE** with the staff recommendations in paragraph 56?
 Q4. Does the NZAuASB have any **FEEDBACK** on the staff recommendations in paragraphs 56?

Commencement of the period of going concern assessment

57. In the [draft] ISA 570 (Revised 2024), the IAASB proposed to change the commencement date of the period of management’s assessment of the entity’s ability to continue as a going concern
- a) from *at least twelve months from the date of the financial statements;*
 - b) to *at least twelve months from the date of approval of the financial statements.*
58. ISA (NZ) 570 already requires the auditor to assess the appropriateness of the going concern assumption for the relevant period, which is at least twelve months from the date of the auditor’s current report. Therefore, the IAASB’s proposal doesn’t propose to change the NZ requirements.
59. However, we note that that there is an inconsistency between the requirements in the audit standards and NZ IAS 1/NZ IFRS 18, which requires the assessment period to be at least, but is not limited to, twelve months from the end of the reporting period.
60. Respondent to ED 570 encouraged the IAASB to continue its efforts in engaging with the IASB to resolve this consistency.
61. The table below provides summary of the current requirements regarding the period of management’s assessment of the entity’s ability to continue as a going concern:

Table 2 – Period of assessment

New Zealand			IAASB
NZ IAS 1/NZ IFRS 18	PBE IPSAS 1	ISA (NZ) 570	[draft] ISA 570 (Revised 2024)
... at least, but is not limited to, 12 months from the end of the reporting period.	... at least, but is not limited to, 12 months from the approval of the financial report.	... at least 12 months from the date of the auditor’s current report.	... at least 12 months from the date of approval of the financial statements

IASB position

62. The January 2013 IFRIC proposal to the IASB (mentioned in paragraphs 18-19 of this memo) also proposed to change of the commencement date of the period of management's assessment of the entity's ability to continue as a going concern to the date of the financial report approval. The proposals were not adopted, as the IASB decided not to go ahead with any enhanced going concern disclosures.
63. In the January 2021 publication [Going concern – a focus on disclosure](#) the IASB stressed that
- a) Some national regulations require consideration of going concern for 12 months from the date that financial statements are authorised for issue. Considering time periods longer than 12 months is not inconsistent with the requirements in paragraph 26 of IAS 1, which establishes a minimum period, not a cap; and
 - b) Paragraph 14 of IAS 10 *Events after the Reporting Period* explains that management's assessment of the use of a going concern basis of preparation needs to reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are authorised for issue.

Staff considerations

64. Resolving the inconsistency noted in paragraph 59 requires developing additional requirements to the NZ IAS 1 and NZ IFRS 18 requirements, which have been directly adapted from IAS 1/IFRS 18. This would require adding additional requirements into FRS 44.
65. However, we note that not all entities in New Zealand are subject to assurance, and there are many Tier-2 entities which do not have any audit or review requirements. As a result, adding additional requirements into FRS 44 may require Tier-2 preparers to perform additional analysis which will not be subject to any assurance.
66. The closely held nature of Tier-2 entities and the relatively shorter period between the end of the financial reporting period and the approval of the financial statements, means Tier-2 stakeholders are unlikely to consider the additional unaudited considerations made by preparers for this additional period to be useful.
67. We also note that the inconsistency between ISA (NZ) 570 and NZ IAS 1 is not a new issue in New Zealand and constituents are already aware of it and deal with this through practical processes. Auditors already established mechanisms and understanding with their clients to overcome this issue, and it is uncommon for entities to not produce cashflow forecasts for several years as part of their going concern analysis and management monitoring processes.
68. As a result, we do not consider any actions are needed on this matter within the NZ accounting standards.

Question for the Boards

- Q5. Does the NZASB and NZAuASB have any **FEEDBACK** to the staff considerations in paragraphs 64 - 68?

Appendix

This Appendix provides extracts of relevant going concern disclosure paragraphs from [draft] ISA 570 (Revised 2024), *Going Concern* (version to be approved at the IAASB December 2024 meeting).

Extract from [draft] ISA 570 (Revised 2024), *Going Concern*

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

34. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and: (Ref: Para. A78–A79)
- (a) State that (Ref: Para. A80–A81)
 - (i) In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
 - (ii) Based on the audit evidence obtained, the auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
 - (iii) The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.
 - (b) For an audit of financial statements of a listed entity, when significant judgements are made by management in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern: (Ref: Para. A82–A83, A89)
 - (i) Include a reference to the related disclosure(s) in the financial statements; and (Ref: Para. A73–A76)
 - (ii) Describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A84–A88)

Use of Going Concern Basis of Accounting Is Appropriate – A Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

35. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" and: (Ref: Para. A78–A79, A90–A91)
- (a) Include a reference to the related disclosure(s) in the financial statements; (Ref: Para. A73, A77)
 - (b) For an audit of financial statements of a listed entity, describe how the auditor evaluated management's assessment of the entity's ability to continue as a going concern; (Ref: Para. A84–A88);
 - (c) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern;
 - (d) State that:
 - i. The auditor's opinion is not modified in respect of the matter;
 - ii. In the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, the auditor concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
 - iii. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

36. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A78–A79, A90, A92)
- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised);
 - (b) In the Basis for Qualified (Adverse) Opinion section of the auditor’s report, state that a material uncertainty exists and that the financial statements do not adequately disclose this matter;
 - (c) Include in the auditor’s report a separate section under the heading “Material Uncertainty Related to Going Concern” and:
 - (i) Draw attention to the Basis for Qualified (Adverse) Opinion section of the auditor’s report that states that a material uncertainty exists that has not been adequately disclosed in the financial statements;
 - (ii) State that:
 - a. In the context of the audit of the financial statements as a whole, and in forming the auditor’s opinion thereon, the auditor concluded that management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
 - b. The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report and are not a guarantee as to the entity’s ability to continue as a going concern.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	5 December 2024
Subject:	GHG Assurance Monitoring
Date:	20 November 2024
Prepared By:	Anna Herlender and Karen Tipper

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is to:
 - inform the Board about the status of our monitoring over the assurance of GHG emissions disclosures in climate statements; and
 - obtain feedback from the Board on draft GHG guidance.

GHG Assurance Snapshot

2. We continue to collect and monitor publicly available information within the climate statements relating to GHG assurance.
3. The snapshot in agenda item 6.2 includes our observations from climate statements lodged into Companies Office until the end of October 2024.
4. The snapshot is a summary of what we could see in the GHG assurance space before NZ SAE 1 *Assurance Engagements over GHG Emissions Disclosures* has become mandatory.
5. We are planning to publish the content of the snapshot for wider audience (the design of the snapshot might be changed after the XRB comms teams provide their input).
6. Additional observations not included in the snapshot:
 - 62% climate statements used an adoption provision in Aotearoa New Zealand Climate Standards not to disclose any of their scope 3 emissions. Some entities used the provision and disclosed some of their scope 3 emissions.
 - 3 more entities (in addition to Air New Zealand that was included in October Board Papers) voluntarily chose to have their GHG emissions disclosures assured in accordance with NZ SAE 1 before it became effective:
 - EBOS Group [assurance report issued by Bureau Veritas in Australia](#)
 - AA Insurance [assurance report issued by McHugh & Shaw](#)
 - NIB New Zealand [assurance report issued by GPP Audit Pty Limited](#) (page 22)

GHG Guidance

7. To support the implementation of the recent amendments to Aotearoa New Zealand Climate Standards and NZ SAE 1, the XRB has committed to issue additional guidance.
8. This guidance was discussed by the NZAuASB in the October meeting. The XRB Board agreed with the NZAuASB that timely joint guidance is needed to support the reporting and assurance of scope 3 emissions.
9. The guidance, once drafted, will be reviewed by targeted external stakeholders before being issued.
10. The Board is asked to provide their comments on the draft guidance for consideration by the staff.
11. The guidance includes:
 - Explanation about key features of GHG assurance report aimed at users of assurance reports (most probably directors and investors) – Agenda item 6.3. This agenda item will be a late paper.
 - The first in a series of guidance pieces that is intended to cover the tensions in data quality, inherent uncertainty and trade-offs for preparers and practitioners (aim to be issued in December) – Agenda item 6.4. This agenda item will be a late paper.

Recommendations

12. We recommend that the Board NOTE the GHG snapshot.
13. We ask the Board PROVIDE FEEDBACK on the draft GHG guidance.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	GHG Assurance Snapshot
Agenda item 6.3	Draft guidance: Navigating the GHG assurance report
Agenda item 6.4	Draft guidance: Scope 3 GHG emissions guidance series – data quality

GHG Assurance Snapshot

October 2024

227 climate statements reviewed

69 climate statements include references to assurance of GHG emissions:

- 4 climate reporting entities obtained assurance in accordance with NZ SAE 1
- 24 climate reporting entities received assurance over their full GHG emissions disclosures included in their climate statements
- 6 climate reporting entities had assurance over some information about their GHG emissions assured (mainly selected metrics relating to scope 1 and scope 2).
- 39 entities included information that their GHG inventories were assured. An inventory report is not required by New Zealand climate standards. The GHG emissions disclosures included in climate statements of these entities were not subject to assurance.

Assurance over GHG disclosures in climate statements

24 climate statements included assurance over GHG emissions disclosures



What level of assurance is provided:

- 1 entity – reasonable assurance
- 19 entities – limited assurance
- 4 entities – mixed assurance



What emissions were assured

- 3 entities – scope 1 and 2 only
- 11 entities - scope 1, 2 and all scope 3 emissions
- 10 entities - scope 1 and 2 and selected scope 3 emissions



Who performed the assurance:

- 17 entities engaged financial statement auditor
- 3 entities engaged other accounting firm
- 4 entities engaged other assurance provider



What communication tools were included in assurance report:

- 10 assurance reports included Emphasis of Matter
- 1 assurance report included qualification

Emphasis of Matter related to:

- limitations relating to using third party data providers by climate related entities
- operational control approach and rationale for including all portfolio company emissions in scope 3 emissions
- another assurance provider assured GHG Inventory Report in previous years
- old emissions factors applied by entity
- consolidation approach different from financial statement consolidation
- uncertainty of calculation methodology
- generic drawing attention to the disclosures

Basis for qualified assurance opinion:

- lack of access to third party provider to obtain sufficient evidence regarding scope 3 emissions

39 entities had only assurance over their GHG Inventory Report

Based on information included in climate statements, we were able to collect the following data on the assurance of GHG inventories of climate reporting entities:



What level of assurance is provided:

- 9 entities – reasonable assurance
- 7 entities - limited assurance
- 19 entities - mixed assurance¹
- 4 entities – not clear



What emissions were assured

- 4 entities – only scope 1 and 2
- 15 entities - scope 1 and 2 and selected scope 3 emissions
- 16 entities - scope 1, 2 and full scope 3 emissions
- 4 entities – scope not clear



Who performed the assurance:

- 12 entities engaged statutory auditor
- 27 entities engaged other assurance practitioner (not an accounting firm)



What communication tools were included in assurance report:

- 9 assurance reports included Emphasis of Matter (and some included more than one Emphasis of Matters)

What was included in Emphasis of Matter:

- uncertainty associated with the calculation methodologies used for Scope 3 categories
- use of spend based emissions factors for some Scope 3 emissions
- use of industry average factors for some Scope 3 emissions
- the change in the base year reporting period
- emission intensity calculations based on pre-audit revenue figures
- part of expenses not included in the calculations of emissions

¹ mixed assurance – some entities received reasonable assurance over scope 1 and 2 and limited over scope 3, some entities received reasonable assurance over scope 1 and 2 and some parts of scope 3 and limited over remaining parts of scope 3