



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Explanation for Decisions Made

NZ SRE 1

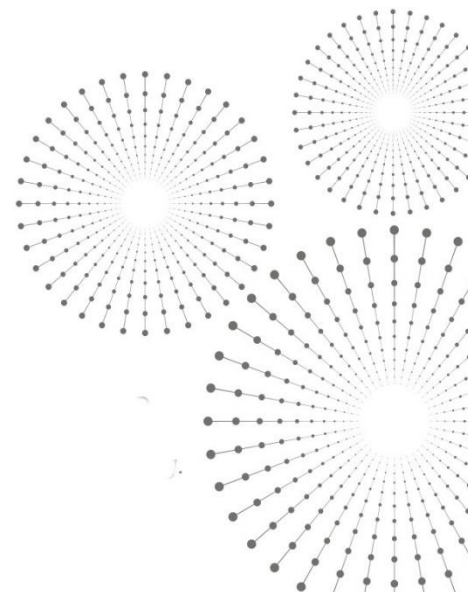
Review of Service Performance Information

February 2025

This document relates to, but does not form part of, NZ SRE 1 *Review of Service Performance Information*, which was approved in February 2025.

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.

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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 charity's 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.
8. Costs associated with the implementation of NZ SRE 1 (being a new standard) include, for example updating templates, firm methodologies, education.
9. 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.

Consultation

10. 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

¹ Section 42C(2)(b)

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.

11. 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

12. We received submissions from two academics, 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.
13. Overall, there was general support for the proposed standard.
14. However, we are aware of a number of challenges around the reporting and assurance of service performance information. The XRB is being proactive in addressing these challenges, and has an active project to support both the preparation and assurance of the statement of service performance.
15. 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 *The Audit of Service Performance Information* 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.
16. Below we look at the key feedback points we received, and how we responded to them.

Understanding

17. 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.
18. 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.
19. 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

20. 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.

21. Overall, we received support for consistency between the assurance and reporting standards.
22. 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 emphasises 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.
23. We also heard about challenges in assessing whether the information is appropriate and meaningful, due to the subjectivity of the term.
24. The XRB noted the general support and retained and further emphasised the “two-step” approach in finalising 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

25. 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.
26. 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.
27. The assessment of “appropriate and meaningful” is a fundamental step in an engagement of service performance information. In finalising 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.
28. 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

29. 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.

30. 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.
31. We recognise the difficulty in applying materiality to qualitative information so felt that it would be more beneficial to add further guidance outside of the standard.

Response to assessed risks

Lack of verifiable evidence

32. 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.
33. 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.
34. 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.
35. Additional application material was included at paragraph A59 to emphasize the link between materiality and risk factors when assessing the sufficient and appropriateness of evidence. Guidance will be developed to promote consistency in practice relating to judgements over reliability of evidence.

Other procedures

36. In addition to enquires and analytical procedures, the proposals require the assurance practitioner to perform “other procedures” to obtain sufficient appropriate evidence.
37. Feedback from the consultation was that it was not clear when “other procedures” would be required.
38. In response, we provided clarity that “other procedures” are used if judged by the assurance practitioner to be necessary in the circumstances and that other procedures 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

39. 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.
40. 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.

41. We will consider in future guidance how enhanced disclosures could be used to provide more meaningful and useful reporting to users.

Application Date

42. 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.
43. NZ SRE 1 was approved for issue in February 2025. It is applicable for periods beginning on or after 1 January 2026. Early adoption is permitted.
44. 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.