



Attachment to AUASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting Date:	28 November 2017
Subject:	ED NZAuASB 2017-2 <i>The Audit of Service Performance Information</i>
Date Prepared:	20/11/2017

Background to NZASB and NZAuASB Project

The NZASB's financial reporting standards require some PBEs to report service performance information within the entity's GPFR. ED 2017-2 has been developed with reference to existing requirements in the Simple Format Reporting Standards (for PBEs reporting in accordance with Tier 3 and Tier 4 PBE Accounting Requirements), and proposed requirements for PBEs reporting in accordance with Tier 1 and Tier 2 PBE Accounting Requirements. The NZAuASB considered that there was a need to develop a NZAuASB standard to provide requirements and application guidance to the auditor when engaged to audit a GPFR that includes service performance information.

NZASB PBE FRS 48 *Service Performance Reporting* (PBE FRS 48)

1. This Standard has been issued to establish requirements for service performance reporting by Tier 1 and Tier 2 public benefit entities.

The New Zealand Accounting Standards Board (NZASB) has issued this Standard to establish requirements for the reporting of service performance information in order to better meet the needs of users of general purpose financial reports of public benefit entities. Public benefit entities have aims and objectives that relate to serving the community or society (or a section thereof). They seek to achieve these aims and objectives by using funds received from resource providers (for example, taxpayers, ratepayers, donors and grantors) to undertake activities for community or social benefit. Therefore, service performance information is an important part of their general purpose financial reports.

This Standard establishes high-level requirements because:

- (a) While service performance reporting has been a feature of the New Zealand public sector for many years its extension into the public benefit entity space raises different questions in terms of users and their needs; accordingly this is an area of reporting that continues to evolve;
- (b) Entities may be subject to a range of service performance reporting requirements, including legislative requirements and may use a variety of performance frameworks; and
- (c) It provides flexibility for entities to determine how best to 'tell their story' in an appropriate and meaningful way.

This Standard applies to:

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- (a) All Tier 1 and Tier 2 not-for-profit public benefit entities; and
- (b) Tier 1 and Tier 2 public sector public benefit entities required by legislation to provide information in respect of service performance in accordance with generally accepted accounting practice (GAAP). If an entity is required by legislation to report service performance information on only some of its activities, this Standard applies only to those activities.

It should be noted that PBE FRS 48 was approved by the NZASB at its 1 November 2017 and issued subsequently in November.

Definition of Tier 1 and 2 PBE's:

Tier 1 and 2 PBEs have expenses in excess of \$2million, and/or “public accountability” (as defined). PBEs with expenses below \$2 million and with no public accountability are currently required to report service performance information that complies with the Tier 3 and 4 Simple Format Reporting Standards.

NZAuASB ED 2017-2 *The Audit of Service Performance Information* (ED 2017-2)

2. The NZAuASB's project has worked alongside the NZASB's development of financial reporting requirements in respect of service performance information. In December 2015, the NZAuASB issued EG Au9 *Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities* to provide interim guidance. This is because the financial reporting requirements for tier 3 and tier 4 entities included requirements for service performance information, before such requirements have been finalised for tier 1 and tier 2 entities. It was acknowledged that this guidance was a temporary measure to assist auditors engaged to audit or review the performance report that included service performance information, until the NZAuASB developed a standard on this topic.

In developing ED 2017-2, the NZAuASB's first consideration was where in the assurance framework such a standard would fit. The assurance standards issued by the NZAuASB are developed under the international assurance framework of the IAASB. This international assurance framework distinguishes between engagements where the subject matter information is historical financial information and other types of information. The ISAs (NZ), based on the ISAs, do not cover non-financial information, such as service performance information. Under the assurance framework, this type of information would be covered by the ISAEs (NZ). However, the principles of the ISAs (NZ) are the same as those in the ISAEs (NZ).

The NZAuASB was mindful that an audit of the GPFR, inclusive of service performance information, should be performed as one engagement, and work performed on one type of information can often be used for both purposes. The need for a concurrent approach is a focus of the ED: from the acceptance of the engagement, through the planning, performance and reporting on the GPFR in a single opinion. This is to enable the auditor to perform the work concurrently, effectively and in an all-encompassing manner.

The importance of this concurrent audit approach led the NZAuASB, after lengthy consideration, to develop a standard that is a part of the auditing standards suite in New Zealand but draws on the ISAE (NZ) 3000 approach. The ED requires the auditor to apply the ISAs (NZ) to the service performance information, where applicable, and expands on any new or additional requirements that are not covered by the ISAs (NZ) as they apply to service performance information.

In bringing their respective standards to fruition, the NZASB and NZAuASB have been conscious of the need to align the different approaches taken by each. ED 2017-2 highlights in particular the

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question of the basis of preparation, and to what extent the audit opinion needs to include statements that draw on the ISAE (NZ) approach.

Key Areas in ED 2017-2 for AUASB to Consider

1. Basis of Preparation – PBE FRS 48 does not require a basis of preparation to be included in the Service performance report or the criteria applied to the Service Performance Information to be explicitly disclosed in the service performance report.

The ED 2017-2 states that the auditor shall conclude whether, in view of the applicable financial reporting framework:

(a) The entity's service performance criteria are suitable, including whether:

- (i) The information will assist users in forming assessments about an entity's accountability for service performance and in making decisions that rely on service performance information;
- (ii) The entity has appropriately applied the qualitative characteristics and pervasive constraints of information;
- (iii) The assumptions underlying the information are explicit, the methodologies adopted in preparing the information and the factors and circumstances that support any opinions expressed or disclosures made are transparent.

(b) The service performance information adequately refers to or describes the entity's service performance criteria;

(c) When the general purpose financial report is prepared in accordance with a fair presentation framework, the service performance information achieves fair presentation, including whether:

- (i) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;
- (ii) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and
- (iii) The disclosure of the critical judgements made in reporting the service performance information, if applicable, is reasonable.

2. In addition to references to the financial statements as required by ISA (NZ) 700 (Revised), the opinion section of the auditor's report shall:

(a) Identify the service performance information;

(b) State that the service performance information has been audited;

(c) Identify the entity's service performance criteria; and

(d) Include the auditor's opinion on the service performance information prepared in accordance with the applicable financial reporting framework.

3. From the above it is important to note that PBE FRS 48 does not require a basis of preparation (disclosure of the criteria or framework on which the SPI has been based and its suitability) however

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the auditor is asked to opine on a number of specific's areas as is noted above; e.g. whether the service performance information adequately refers to or describes the entity's service performance criteria. It is noted that for PBEs there is not necessarily going to be a formal performance framework in place but it is important to note that the auditor needs to understand the criteria/framework against which it is opining. It is noted that under PBE FRS 48 there is a requirement to disclose significant judgements applied to service performance information.

4. Significant judgements are defined in PBE FRS 48 are as follows:

An entity shall disclose those judgements that have the most significant effect on the selection, measurement, aggregation and presentation of service performance information reported in accordance with this Standard that are relevant to an understanding of the entity's service performance information.

5. The reporting requirements in PBE FRS 48 appear to be set at a more elevated level for the PBE preparer of the SPI than the assurance requirements that apply to the assurance practitioner in ED 2017-2. Traditionally the reporting framework requires the measurement criteria applied to be disclosed for the user of the report to understand the basis of preparation applied. In the ATG's view the audit requirements and the disclosure in the auditor's opinion as proposed in ED 2017-2 are more detailed and specific than those applied to the PBE preparing the SPI under the new accounting standard.
6. ED 2017-2 uses terminology in its two step approach to audit of SPI – “verifying” what is reported. The term ‘verify’ has been used in ED 2017-2 as it is linked to the concept of “verifiability” in the PBE Conceptual Framework. This term is not one applied or defined in the Australian Framework for Assurance Engagements.
7. It is noted that ED 2017-2 includes a new assertion of “attribution” in considering different types of misstatements of SPI. This assertion applies to whether the service performance is attributable to the entity. This is a new assertion in addition to those traditionally applied and is specific to SPI. In developing an assurance standard on SPI the AUASB may also need to consider including the assertion of “attribution”.

Potential Impacts for AUASB in the future with regard to NZAuASB approval of ED 2017-2

1. As noted above, the NZAuASB has considered the requirements of the ISAs (NZ) as well as the ISAEs (NZ) in developing this ED. Where applicable, requirements from ISAE (NZ) 3000 (Revised) have been included within the ED. This will avoid the need for the auditor to refer to both sides of the assurance framework when auditing the GPFR.
2. In Australia an accounting standard for service performance information would not be part of the GPFR and would be considered a non-mandatory disclosure (however adoption would be strongly recommended) and therefore would be encapsulated under the EER banner and as such fall within the Other Assurance suite of Standards (ASAE 3000) under the Framework for Assurance Engagements.
3. This is noted to highlight that the NZAuASB ED 2017-2 SPI and an Australian Assurance Standard on SPI would not necessarily be consistent because of where they reside in the Assurance Frameworks in each jurisdiction.
4. If Australia were to look to develop a standard on SPI or adapt the NZAuASB's proposed standard *The Audit of Service Performance Information*, there may be reasons for differences between the two assurance standards and these would need to be the focus of the harmonisation effort.

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