



20 December 2017

Mr Robert Buchanan
Chair
New Zealand Auditing and Assurance Standards Board
Manners Street
Central Wellington 6142

Dear Robert,

**AUASB Technical Group Comments on the NZAuASB ED 2017-2: *New Zealand Auditing Standard XX
The Audit of Service Performance Information***

We are pleased to have the opportunity to comment on the NZAuASB's ED 2017-2: *New Zealand Auditing Standard XX The Audit of Service Performance Information*.

Overall, the Australian Auditing and Assurance Standards Board (AUASB) are very supportive of the leading role the New Zealand Auditing and Assurance Standards Board (NZAuASB) has taken in issuing an exposure draft on the audit of service performance information (SPI) under the New Zealand reporting framework as part of the General Purpose Financial Report (GPFR) for some Public Benefit Entities (PBE).

The AUASB see the reporting and assurance of SPI as an important area for the PBE sector, and that the information needs and assurance requirements of the report users are at the forefront of this thinking.

In formulating this response, the AUASB Technical Group (ATG) sought input from AUASB members at the November 2017 AUASB meeting. The views of those AUASB members who commented on this matter are reflected in this letter. We have also included specific comments to some of the questions in the ITC in Attachment 1.

Additionally the AUASB Chair and Technical staff have been actively involved in the NZAuASB project to develop this standard through attending subcommittee meetings to monitor and provide feedback as the exposure draft has progressed, as well as consider any implications for the Australian reporting and assurance frameworks and the users of this type of information in the Australian jurisdiction.

To begin, the ATG would like to highlight the way the NZ accounting and assurance standards complement each other, noting that 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 Board in this area.

As part of our review the ATG considered that the NZAuASB ED 2017-2 is applicable to an audit of SPI done in conjunction with the audit of the GPFR and therefore must be done in accordance with ISA (NZ) 700 (Revised).

Specifically, our key concern is that the requirements for the preparer of the SPI outlined in PBE FRS 48, do not explicitly require a basis of preparation. This could result in the user of the SPI not fully understanding how the SPI was prepared. This also impacts the information on which the auditor bases their opinion, as required by ED 2017-2.

Whilst we acknowledge PBE FRS 48 does require the preparer to disclose the significant judgements they applied to the preparation of the SPI, ED 2017-2 requires the auditor to opine on whether the service performance information adequately refers to or describes the entity's service performance criteria. We are concerned that for some NZ PBEs there is not necessarily going to be a formal performance framework in

place which may mean the auditor has difficulty identifying and understanding the SPI criteria or framework against which it is opining.

In the ATG's view it is not ideal that the proposed audit requirements and the disclosure in the auditor's opinion in relation to an entity's service performance criteria and evaluation of the criteria's suitability as part of the assurance practitioner's responsibilities, could be considered more detailed and specific in nature than the requirements for PBE preparers of the SPI under PBE FRS 48.

Consequently, whilst we do not propose any changes to the ED for this purpose, we'd encourage the NZASB and NZAuASB to work together to produce additional guidance for preparers and auditors which specifies what disclosures are required by the SPI preparer to ensure the information can be audited appropriately, and any potential limitations of scope or incorrect audit conclusions are avoided.

The ATG notes that 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. We support this approach, which will avoid the need for the auditor to refer to multiple standards within the assurance framework when auditing the GPFR.

On a different matter, because of the different reporting frameworks that exist in each of our respective jurisdictions, any new reporting standard for SPI in Australia would be highly unlikely to be part of the GPFR. Accordingly, any future assurance standard issued by the AUASB on SPI would probably be issued as a Standard on Assurance Engagements (e.g. ASAE 3000) under our Framework for Assurance Engagements. We highlight this as ED 2017-2 and any future Australian Assurance Standard on SPI may not necessarily be consistent because of where these engagements reside within the Assurance Framework. This means that if the AUASB were to develop an assurance standard on SPI or adapt the NZAuASB's proposed standard *The Audit of Service Performance Information* in future, there are likely to be differences between the two assurance standards, contrary to the current protocol that exists between the New Zealand External Reporting Board (XRB) and the AUASB which requires us to minimise the differences between auditing and assurance standards issued in Australia and New Zealand.

The AUASB's detailed responses to some of the specific questions asked in the ITC and general comments are included in this letter at Attachment 1.

Should you have any queries regarding these comments, please do not hesitate to contact me at mzappulla@auasb.gov.au or Marina Michaelides at mmichaelides@auasb.gov.au.

Yours sincerely,

Matthew Zappulla
Technical Director

Attachment 1

Comments on Specific Questions raised in the Invitation to Comment

Suitable Service Performance Criteria

Q6. Do you agree with the definition of the entity’s service performance criteria? If not, please explain why not and provide an alternative suggestion.

Overall the service performance criteria definition in para 7(f) is sufficient and consistent with the principles of ISAE 3000. In addition to the references to strategy, the definition may also benefit from connectivity to:

- Business model (to implement strategy);
- Sectoral performance measures (e.g. GRI Sector Guides); and
- Global performance measures (e.g. Sustainable Development Goals (SDGs), global megatrends).

Q7. Do you agree with the general two-step approach taken in the ED, in particular, the requirements for the auditor to first evaluate the suitability of the entity’s service performance criteria and then obtain sufficient and appropriate audit evidence to support the service performance information? If not, please explain why not and identify any alternative proposals.

The two step approach is consistent with the concepts in ISAE 3000 so overall we are supportive of the approach taken in ED 2017-2. The concept is repeated in paragraphs 28 and 35 so the NZAuASB may need to consider this approach. Scoping complexity was presented as a challenge in the Australian jurisdiction for extended external reporting engagements (EER) of which SPI would be included; hence there may also be more complexity for SPI in Australia than the two-step approach adopted in NZ. This area will hopefully be addressed as part of the IAASB EER project on assurance challenges for EER.

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 or International Framework for Assurance Engagements so the AUASB may need to consider this further if an assurance standard on SPI is developed.

Assertions

Q12. Do you agree with the identified assertions? If not, please explain why not. Are there further assertions you consider should be included? Please explain.

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. The ATG agree that the inclusion of the assertion of attribution is appropriate for the subject matter of SPI.

However the NZAuASB may need to consider that there is a lack of clarity between the assertions listed in the ITC Q12 and paragraph 58 (ii) i-v – qualitative and pervasive constraints of information, including completeness, neutrality, reliability, relevance and understandability. The differences between the PBE Conceptual Framework assertions and those in paragraph 58 may need to be explained further. Do balance, transparency and clarity also play a part in reporting SPI?

Use of experts and other practitioners

Q13: Do you consider that the ED adequately addresses the use of experts? If not, what additional requirements or application material do you consider are needed?

Overall the ED 2017-2 adequately covers the use of experts in paragraph A56. Some further examples of experts may add value, such as experts in the following areas:

- Climate change calculations;
- Specific scientific measurements;
- Social impact measurement;
- Human rights performance; and
- People and diversity disclosures.

Reporting

Q16. Do you consider that users of the auditor's report would benefit from additional information in the auditor's report? For example, information as to why the auditor considers that the service performance criteria are suitable, underlying facts or findings or recommendations related to the suitability of the service performance criteria. Please explain why.

In Australia ASAE 3100 *Compliance Engagements* (equivalent NZ SAE 3100) allows for a long-form report which may include additional information that includes:

- Materiality levels;
- Underlying facts and criteria applied; and
- Recommendations.

This approach is discussed in application material as it goes beyond the basic elements under the requirements of ASAE 3000 and ASAE 3100. The ATG believe allowing this long-form report as an option may provide the users of the auditor's report on SPI more useful information.

Materiality

Para A35:

The ATG suggest that "material issues significantly influence" PBE/stakeholder decisions rather than being simply "taken into consideration", which is a stronger statement in terms of materiality.

Para A36: Final sentence, second bullet point could be extended to include more sources of information – see comments on paragraph A44 below.

Para A41: Consider extending qualitative statements to incorporate balance, transparency, clarity, credibility and trust.

Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement

Para A44:

- 5th bullet point highlights surveys – explain that these can include customer satisfaction surveys, employee engagement surveys; and
- Stakeholder consultation – explain that this can include feedback, complaints, targeted interviews, multi-stakeholder workshops.

➤ **Other general comments not specifically linked to questions in the ITC:**

ITC Para 23, pg 11: A number of standards and guidance are referenced – it would make sense to include the International Integrated Reporting Council (IIRC) <IR> Framework in these references.

ED 2017-2 Para 7: NZAuASB may want to consider further definitions as new terminology is used for non-financial service performance information e.g. climate change, social impact and people and diversity disclosures. In addition if the final SPI assurance standard does incorporate the option to include a long form report as discussed above at Question 16, the NZAuASB may consider including a definition of this consistent with ASAE 3100 Compliance Engagements (equivalent NZ SAE 3100).