



NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

## **EXPOSURE DRAFT NZAuASB 2017-2**

# **NEW ZEALAND AUDITING STANDARD XX THE AUDIT OF SERVICE PERFORMANCE INFORMATION**

**(ED NZAuASB 2017-2)**

**Invitation to Comment**

September 2017

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## Information for Respondents

### Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)<sup>1</sup> is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising an auditing standard on service performance information.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington 6142  
New Zealand

Email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)

(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is 20 December 2017.

### Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website ([xrb.govt.nz](http://xrb.govt.nz)), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

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<sup>1</sup> The NZAuASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting auditing and assurance standards.

## List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
ISA	International Standard on Auditing
ISA (NZ)	International Standard on Auditing (New Zealand)
ISAE (NZ)	International Standard on Assurance Engagements (New Zealand)
GPFR	General purpose financial report
NZAuASB	New Zealand Auditing and Assurance Standards Board of the External Reporting Board
NZASB	New Zealand Accounting Standards Board of the External Reporting Board
NZ AS	New Zealand Auditing Standard
PBE	Public Benefit Entity
PBE FRS	Public Benefit Entity Financial Reporting Standard

## Questions for Respondents

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- |  |       |
|--|-------|
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| 2. Do you agree that the ED is understandable and is scalable so as to be applicable to the audit of service performance information, regardless of the size of the entity and the tier under which it reports?  | 24-25 |
| 3. Do you consider there are additional areas where further requirements or application material is needed that are not addressed by the ED or where further guidance is needed on how the ISAs (NZ) are to be applied to the service performance information? Please be specific.   | 26-27 |
| 4. Do you believe that the ED achieves an appropriate balance between improving the consistency and quality of an audit of GPFR that includes service performance information and the potential cost of such engagements as a result of work effort required by the ED? If not, please expand on where and why you consider the costs exceed the benefits. | 28-29 |
| 5. Is the ED clear in emphasising the concurrent nature of the audit? If not, please provide paragraph references as to where you consider additional emphasis is needed.  |       |

### Suitable service performance criteria

- |  |       |
|--|-------|
| 6. Do you agree with the definition of the entity's service performance criteria? If not, please explain why not and provide an alternative suggestion.  | 32    |
| 7. 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.  | 30-36 |
| 8. Do you consider that the ED is clear that the evaluation of the suitability of the entity's service performance criteria is an iterative process, and therefore allows for the possibility of changes to be made by the entity during the current financial reporting period or do you consider that the ED should be more explicit with respect to changes that may be made to the entity's service performance criteria during the financial reporting period? If you consider further clarification is needed please be specific as to what amendments you consider necessary. |       |

## Paragraphs

9. Do you consider that the guidance in the ED with respect to evaluating the suitability of the entity's service performance criteria fits together well with the requirements and guidance in the proposed financial reporting standard, with respect to the selection of information and disclosure of critical judgements? If not, what recommendations do you have to enhance the way in which the proposed financial reporting standard and the proposed auditing standard work together?
10. Do you consider that the application material will assist an auditor in applying professional judgement to evaluate the entity's service performance criteria? 37-40
11. Is there a need for additional application material to assist an auditor in applying professional judgement to evaluate the entity's service performance criteria? If so, please indicate what additional application material is needed. 40

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12. Do you agree with the identified assertions? If not, please explain why not. Are there further assertions you consider should be included? Please explain. 44

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15. Do you agree with the proposed scope and requirements for reporting the auditor's opinion on the GPFR? If not, please explain why not and identify any alternative proposals. 48-60
16. 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. 57-59
17. Do you agree that the ED should allow flexibility rather than being prescriptive, i.e. requiring a short form report but allowing a long form report, to enable the auditor to add additional information where that information may better inform or meet user's needs? If not, please explain why not.
18. Do you consider that it is necessary for the auditor to opine on the suitability of the entity's service performance criteria explicitly, as illustrated in paragraph 56 of this ITC? If so why? 56

Paragraphs

19. Alternatively, do you agree with the proposals in the ED, that it is not necessary to opine on the suitability of the entity's service performance criteria, but that this is implicit and is better covered in the responsibilities of those charged with governance and the responsibilities of the auditor? 54-55
20. Which opinion do you consider will be better understood by the user of the auditor's report and why?
21. Are there any additional factors that should be described in the description of the responsibilities of those charged with governance in the auditor's report?
22. Are there additional factors that should be described in the auditor's responsibilities section or that would be helpful to provide a better context about the audit of the service performance information?
23. Is the ED clear as to the implications where the auditor determines that it is necessary to modify the opinion in respect of the service performance information? If not, please expand on what clarification is needed. 60

**Effective Date**

24. Do you agree that aligning the effective date with the proposed Tier 1 and Tier 2 PBE Accounting Requirements is appropriate? 61

**Other**

25. The next phase of this project will be to develop a review engagement standard. Do you have any comments as to how a review standard would differ from the proposals in this ED?
26. Do you have any other comments on ED NZAuASB 2017-2?

# 1. Introduction

## 1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment is to seek comments on the proposed requirements and application material in ED NZAuASB 2017-2 *The Audit of Service Performance Information* (the ED).

## 1.2 Background

2. The NZASB's financial reporting standards require some PBEs to report service performance information within the entity's GPFR. This ED 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.<sup>2</sup> 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.
3. The NZAuASB has not determined which entities are required to have their GPFR audited. Rather, the NZAuASB identified a gap in existing auditing standards. There is no standard issued by the NZAuASB that addresses the audit of service performance information directly and there is no international equivalent to the proposed standard.
4. The NZAuASB approved a project in October 2014 to develop an auditing standard on service performance information included in a GPFR.
5. The audit of service performance information is not new in New Zealand, rather has been required in the public sector for many years. The NZAuASB has drawn from the knowledge and experience gained through that process in identifying key challenges to cover in developing an auditing standard that applies more broadly than the public sector.
6. 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.
7. The NZASB is expected to finalise the requirements for reporting service performance information for tier 1 and tier 2 entities before the end of the year. Any amendments made in finalising these requirements may impact upon the final wording of the auditing standard.

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<sup>2</sup> The NZASB is currently deliberating on feedback received in response to its [limited scope review draft](#) of PBE FRS XX *Service Performance Reporting*. Comments on the limited scope review draft closed on 28 July 2017.



8. The NZAuASB is committed to developing a review standard on this topic upon completion of the auditing standard, as some entities may elect to have the GPFR reviewed rather than audited.
9. Once the auditing and the review standard are issued, EG Au 9 will be withdrawn. EG Au 9 will remain in place until the review standard is issued, to assist auditors engaged to review a performance report.

### 1.3 Timeline and Next Steps

10. Submissions on ED NZAuASB 2017-2 are due by 20 December 2017. Information on how to make submissions is provided on page 3 of this Invitation to Comment.
11. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue a standard.

## 2. Overview of ED NZAuASB 2017-2

### 2.1 Where the ED Fits Within the Assurance Framework

12. Service performance information includes non-financial information. The ISAs apply to the audit of historical financial information. ISAE (NZ) 3000 (Revised)<sup>3</sup> is an umbrella standard that applies when the subject matter of the assurance engagement includes information other than historical financial information. However, that standard is generic and does not address matters to consider with respect to service performance information specifically. There is no current international standard that covers this information. In New Zealand, in the public sector, the Office of the Auditor-General has issued AG 4.<sup>4</sup>
13. In developing ED NZAuASB 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).
14. In New Zealand, the legal definition of financial statements has been broadened to incorporate both financial and service performance information and is inconsistent with the definition of financial statements under the ISAs.
15. The Financial Reporting Act 2013, section 6 defines financial statements, in relation to a reporting entity and a balance date:

(a) means the statements for the entity as at the balance date, or in relation to the accounting period ending at the balance date, that are

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<sup>3</sup> ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

<sup>4</sup> Auditor-General's Auditing Standard 4, *The Audit of Performance Reports*

required to be prepared in respect of the entity by an applicable financial reporting standard or a non-GAAP standard; and

(b) includes any notes giving information relating to those statements that are required by an applicable financial reporting standard or a non-GAAP standard.

16. The proposed applicable financial reporting standard *PBE FRS XX Service Performance Reporting*, which will be a financial reporting standard within the PBE Standards in New Zealand, requires the reporting of service performance information as part of the “financial statements” as defined in law. It is this legislative requirement that captures the service performance information within the scope of the audit, as there is a legal obligation on certain entities to have their “financial statements” which legally include service performance information, audited.
17. ISA 700 (Revised) states that the auditor’s opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. In some jurisdictions, additional information may also be considered to be an integral part of the financial statements.<sup>5</sup>
18. The definition of the applicable financial reporting framework is the framework adopted in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law.<sup>6</sup> In New Zealand, the financial reporting standards have included a requirement to report on service performance information, given the nature of these entities (public benefit entities). The applicable financial reporting framework in New Zealand does not distinguish between financial and service performance information – but requires both financial and service performance information to meet the needs of users of GPFR in this sector. The service performance information is therefore considered to be an integral part of the “financial statements” as defined in law, in New Zealand.<sup>7</sup>
19. 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.
20. The importance of this concurrent audit approach led the NZAuASB to develop a standard that is a part of the auditing standards suite in New Zealand. 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.
21. 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

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<sup>5</sup> ISA (NZ) 700 (Revised), paragraph A26

<sup>6</sup> ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 13 (a).

<sup>7</sup> The term general purpose financial report is used in the financial reporting standards and the exposure draft to mean the “financial statements” as defined in the Financial Reporting Act 2013.

need for the auditor to refer to both sides of the assurance framework when auditing the GPFR.

22. The NZAuASB has also referred to AG 4 in developing this ED to reflect best practice that has emerged from the public sector, where the preparation and audit of service performance information is well established.
23. In addition, the NZAuASB has been following the research of the IAASB in relation to its project on emerging forms of external reporting including Integrated Reporting. Other sources referred to include: assurance standards issued by AccountAbility, the Global Reporting Initiative G4 Sustainability Reporting Guidelines, and Guidance for Auditing in the Public Sector as issued by the Independent Regulatory Board for Auditors in South Africa.

#### **Question for Respondents**

1. Do you agree with the proposed approach to develop an auditing standard rather than a standard under the umbrella of ISAE (NZ) 3000 (Revised)? If not, please explain why not, and why an alternative approach is preferable.

### **2.2 One Auditing Standard for all PBEs**

24. Historically the auditing standards have been developed to apply to the audit of any entity, regardless of size or sector. This is consistent with the principle that an audit is an audit. The ED adopts a similar approach. The reporting requirements however differ between the tier 1 and 2 proposals and the tier 3 and 4 requirements. In addition, there may be different factors to consider for public sector entities as opposed to not-for-profit entities.
25. The ED applies where the financial reporting framework requires the reporting of service performance information and that information is required to be audited or where an entity has elected for that information to be audited.

#### **Question for Respondents**

2. Do you agree that the ED is understandable and is scalable so as to be applicable to the audit of service performance information, regardless of the size of the entity and the tier under which it reports?

### **2.3 Summary of the Content**

26. The ED includes additional requirements and application material for the auditor to consider when applying the ISAs (NZ) to service performance information.
27. Key areas where additional requirements and guidance have been included are:
  - a. Evaluating the suitability of the entity's service performance criteria;
  - b. Materiality considerations;
  - c. Understanding the entity and the environment;
  - d. Assertions to address;
  - e. Availability of suitable evidence;
  - f. Reporting options; and

- g. Modified audit opinions.

**Question for Respondents**

3. Do you consider there are additional areas where further requirements or application material is needed that are not addressed by the ED or where further guidance is needed on how the ISAs (NZ) are to be applied to the service performance information? Please be specific.
28. The ED proposes that the auditor adopt a two-step approach to the audit of the service performance information:
- a. Step 1: Evaluate the suitability of the entity's service performance criteria; and
  - b. Step 2: Verify the information that is presented.
29. The ED includes a flowchart for the audit of service performance information included in GPFR, in Appendix 3.

**Questions for Respondents**

4. Do you believe that the ED achieves an appropriate balance between improving the consistency and quality of an audit of GPFR that includes service performance information and the potential cost of such engagements as a result of work effort required by the ED? If not, please expand on where and why you consider the costs exceed the benefits.
5. Is the ED clear in emphasising the concurrent nature of the audit? If not, please provide paragraph references as to where you consider additional emphasis is needed.

*Suitable service performance criteria*

30. An assurance engagement involves the assurance practitioner expressing a conclusion about the outcome of the measurement or evaluation of an underlying subject matter (in this case the service performance of the entity) against criteria.<sup>8</sup> These criteria must be "suitable" and be available to intended users for an "audit" to be performed in accordance with the international assurance framework.
31. ISAE (NZ) 3000 (Revised) requires the auditor to evaluate the suitability of the applicable criteria. The applicable financial reporting standard establishes the requirement to report service performance information and requirements for selection of performance measures and/or descriptions. The entity itself however is required to make judgements to determine the boundaries of which elements to report and how to measure and/or describe those elements. The identification of the elements and quantification, description and presentation methods as required by the applicable financial reporting standard involves significant judgements about what should or should not be within reported service performance information. These judgements may even change during the year (as contemplated in paragraph 42 of the ED) or from year to year (as noted in paragraph 32 of the ED). The identification of these elements become the "criteria" or benchmarks by which the entity's service performance will be judged. The need for such judgement may make the service performance criteria adopted by the entity susceptible to the risk of preparers' bias.

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<sup>8</sup> ISAE (NZ) 3000 (Revised), paragraph 12(a)

32. The ED defines service performance criteria, in paragraph 7(e) as:
- “the benchmarks used to measure or evaluate the entity’s service performance. The entity’s service performance criteria include the goods and services reported and related performance measures and/or descriptions used for the particular engagement, adopted by the entity, applicable to its circumstances, with logical links to the entity’s overall purpose and strategies, in accordance with the applicable financial reporting framework.”
33. Every entity needs to prepare and customise its service performance information to reflect its circumstances. Each reporting entity must judge, in accordance with the applicable financial reporting standard, what service performance criteria to adopt (i.e., including what goods and services to report, what performance measures and/or descriptions are most appropriate and meaningful, and how they are best aggregated and presented for the purpose of external reporting). If the underlying service performance is not properly identified and presented, the basis of reporting is undermined and may not achieve the intended objectives.
34. The audit of service performance information will be performed on the basis of criteria that include both the criteria established in the financial reporting standard (that is, the requirements established in the financial reporting standard in selecting the service performance information including measures and/or descriptions) AND criteria that are developed by the entity exercising their own judgement (that is, the identification of which specific elements and quantification, description and presentation methods the entity elects to report its service performance information). The importance of the suitability of what the entity selects to report has been emphasised in the NZAuASB’s project.
35. The NZAuASB has adopted a two-step approach to the development of the ED to audit service performance information:
- a. Step 1: Evaluate the suitability of the entity’s service performance criteria; and
  - b. Step 2: Verify what is reported.
36. An entity’s service performance criteria may develop over time. Initially an entity may select service performance criteria, including performance measures that are easiest to measure and report, that do not necessarily meet the qualitative characteristics described in the applicable financial reporting framework. The NZAuASB contemplated whether a phased approach may be appropriate for those entities where the reporting of service performance information is at its infancy but concluded that the ED should cover both the suitability of the service performance criteria used as well as verification of what is reported for the reasons described above. The proposed financial reporting standard requires appropriate and meaningful service performance information. Step one is currently standard practice in public sector audits<sup>9</sup>.

### Questions for Respondents

6. Do you agree with the definition of the entity’s service performance criteria? If not, please explain why not and provide an alternative suggestion.
7. 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

<sup>9</sup> AG 4, paragraph 12(c)

support the service performance information? If not, please explain why not and identify any alternative proposals.

8. Do you consider that the ED is clear that the evaluation of the suitability of the entity's service performance criteria is an iterative process, and therefore allows for the possibility of changes to be made by the entity during the current financial reporting period or do you consider that the ED should be more explicit with respect to changes that may be made to the entity's service performance criteria during the financial reporting period? If you consider further clarification is needed please be specific as to what amendments you consider necessary.
9. Do you consider that the guidance in the ED with respect to evaluating the suitability of the entity's service performance criteria fits together well with the requirements and guidance in the proposed financial reporting standard, with respect to the selection of information and disclosure of critical judgements? If not, what recommendations do you have to enhance the way in which the proposed financial reporting standard and the proposed auditing standard work together?

37. A precondition for an audit is that those charged with governance accept responsibility for the preparation of the GPFR, including the service performance information. The ED therefore expands upon the ISA (NZ) requirements, and requires the auditor to agree with those charged with governance that they acknowledge and accept their responsibility to adopt service performance criteria in accordance with the financial reporting framework that are suitable in the context of the entity, and for the preparation of that service performance information in accordance with the financial reporting requirements.
38. The auditor is required to understand the process the entity undertook to adopt the entity's service performance criteria to enable the auditor to evaluate the suitability, in the circumstances of the entity, of the criteria.
39. The ED notes (in paragraph 14) that where the auditor has concerns regarding the suitability of the entity's service performance criteria, those concerns should be discussed with those charged with governance as soon as possible, and if not addressed, may have implications for the audit, the auditor's report and the opinion on the service performance information. However, in such circumstances the auditor is not required to withdraw from the audit of the GPFR.
40. Financial reporting is a mature process and is well understood, with defined elements to report and established measurement techniques. Reporting service performance information is new for some, and therefore PBEs' processes to identify, capture and report this information will be at different levels of maturity. The characteristics of the information may be very different from the financial information and it may not be possible to get the same level of consistency in measurement or the evaluation. A key focus of the ED is therefore on the work that the auditor will be required to perform in order to conclude whether that entity's service performance criteria are suitable in the circumstances.

#### **Questions for Respondents**

10. Do you consider that the application material will assist an auditor in applying professional judgement to evaluate the entity's service performance criteria?
11. Is there a need for additional application material to assist an auditor in applying professional judgement to evaluate the entity's service performance criteria? If so, please indicate what additional application material is needed.

*Materiality*

41. Service performance information may include more narrative and qualitative information. The ED requires the auditor to determine materiality level or levels for quantitative service performance information and materiality factor or factors for qualitative service performance information. The NZAuASB's project has considered both how to assess what would be material (i.e., reporting what matters) and the need for various materiality levels or materiality factors to assess the information reported. Materiality levels and materiality factors may differ between the financial information and the service performance information, and between various types of service performance information reported where there is no common unit of measurement of service performance if a variety of performance measures are reported. The ED includes additional guidance to support the auditor's determination of materiality to be applied to the service performance information.

*Understanding the entity and its environment*

42. The ED expands upon the requirements in the ISAs (NZ) to obtain an understanding of the entity and its environment, including its internal controls, to identify the risks of material misstatement of the service performance information. It highlights the need to understand the service performance criteria adopted by the entity (and changes in those criteria over time) and to evaluate whether the criteria are suitable and in accordance with the applicable financial reporting framework. Disclosures of the critical judgements made by the entity as part of preparing the service performance information, if applicable, assist the auditor's evaluation. The ED also highlights the benefits of early communication with those charged with governance about any concerns regarding the suitability of the service performance criteria, to enable improvements to be made.
43. The entity's controls over the reporting of service performance information may be at various stages of maturity, given that for some entities, reporting of service performance information will be new. The auditing process may expose deficiencies in the control environment. In line with the concurrent audit of financial and service performance information, the ED notes that control activities that are relevant to the audit of financial statements may assist in the audit of the service performance information. Absent or weak controls may force the auditor to use primarily substantive procedures or may impact on the auditor's opinion.

*Assertions*

44. The ED sets out proposed assertions used by the auditor in considering the different types of misstatements of service performance information that may occur, including: occurrence, completeness, accuracy, cut-off, presentation, consistency. These are broadly comparable to assertions made in a financial statement audit. In addition, the ED includes an assertion as to whether the service performance is attributable to the entity.

**Question for respondents**

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

*Audit evidence*

45. The ED highlights the importance of making correlations, as far as possible, between audit evidence obtained in the audit of the financial statements and the service performance information.
46. The audit of service performance information may require broader specialised subject matter competence, to appropriately challenge management and may also require the greater use of experts.

**Question for respondents**

13. 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?

47. In certain circumstances, an entity may include service performance information about goods and services provided by other entities, for example in the public sector where a department administers an appropriation used by another entity. In such circumstances, the auditor may need to use the work of another practitioner.

**Question for respondents**

14. Do you consider that the ED adequately addresses the use of another practitioner? If not, what additional requirements or application material do you consider are needed?

*Reporting*

48. As the service performance information is an integral part of the GPFR in New Zealand the ED requires the auditor's report on the service performance information to be included in a single report on the general purpose financial report. The NZAuASB is proposing that the opinion on the GPFR is reported together as one opinion and not as separate opinions over the financial information and the service performance information.
49. The ED requires the auditor to identify the service performance information, state that it has been audited, identify the entity's service performance criteria and then conclude whether in the auditor's opinion the service performance information has been prepared in accordance with the applicable financial reporting framework.
50. In addition, further information is included in the auditor's report regarding both the auditor's responsibilities and the responsibilities of those charged with governance relating to the service performance information. The required elements to be included in the auditor's report by the ED are those usually included in a short form auditor's report.
51. ISAE (NZ) 3000 (Revised) prevents an assurance practitioner from accepting an engagement where the preconditions for an assurance engagement are not present.<sup>10</sup> A precondition for an assurance engagement is that the practitioner expects the criteria to be applied to be suitable for the engagement circumstances and that the criteria need to be available to the intended users. This requirement is reflected in paragraph 11 of the ED.

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<sup>10</sup> ISAE (NZ) 3000 (Revised), paragraph 25.



52. ISAE (NZ) 3000 (Revised) also requires that the auditor's report identify the applicable criteria.<sup>11</sup> Identification of the entity's service performance criteria within the auditor's report is required because it is useful context for the user of the auditor's report. In addition, disclosing the source of the criteria may be useful (e.g., established in a predetermined performance framework).
53. The ED includes an updated illustrative example of an unmodified auditor's report to be included in ISA (NZ) 700 (Revised) that covers both the financial statements and the service performance information as part of the consequential amendments when the standard is finalised.

### *Opinion*

54. In establishing the reporting requirements, the NZAuASB considered whether the auditor should be required to opine explicitly on the suitability of the service performance criteria adopted by the entity in the auditor's report. This is not generally a requirement of the auditing and assurance standards, since in most circumstances this is a precondition for the engagement i.e., the auditor would not accept the engagement if this were not the case. However, in the audit of GPFR, if the service performance criteria are not suitable, the auditor would still audit the financial statements.
55. The NZAuASB is mindful that the opinion should be readily understandable to the user of the auditor's report, and therefore is proposing to keep the opinion as simple as possible. For this reason, the NZAuASB is proposing not to require an explicit opinion on the suitability of the entity's service performance criteria but to describe this in the responsibilities of the auditor in the auditor's report. The ED illustrates the proposed opinion in paragraph 62.

### *An alternative opinion*

56. The alternative is to include an explicit opinion on the suitability of the entity's service performance criteria. This approach was outlined in [EG Au9](#), and would result in an opinion that looked as follows:

In our opinion:

- a) the [*entity's service performance criteria*] used to prepare the service performance information are suitable;
- b) the accompanying financial report presents fairly, in all material respects, (*or gives a true and fair view of*):
  - the service performance for the year then ended; and
  - the financial position of ABC [*entity*] as at [DD MM 20XX], and (*of*) its financial performance and its cash flows for the year then ended

in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

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<sup>11</sup> ISAE (NZ) 3000 (Revised), paragraph 69(d)

*Additional reporting is optional*

57. The ED also encourages the auditor to report findings or recommendations about the entity's service performance criteria in the auditor's report if the information would enhance transparency and assist the user to understand the entity's reporting. Reporting of findings and recommendations may promote and highlight to the user improvements made in reporting over time.
58. The NZAuASB proposes that additional information may be included in the auditor's report, where it better meets the needs of users. (i.e., a long form auditor's report is permitted but not required by the ED). The ED indicates the type of additional information that may be included if the auditor considers that a long form report would better meet the needs of users, and could include:
- additional context to enhance users' understanding of the entity's service performance criteria;
  - information about the source of the criteria
    - whether they are externally established criteria;
    - why the auditor considers the criteria to be suitable; or
    - any findings or recommendations for improvements to the criteria, as applicable and relevant to the users understanding.

Where a long form report is used, the auditor should avoid using wording that may be regarded as modifying the auditor's opinion.

59. Some not-for-profit entities may not have previously reported service performance information. The auditor's opinion would similarly not have previously covered such information. Users of the auditor's report may therefore find it helpful if the auditor's report described what the audit of service performance information involved and what the audit opinion covers.

*Modified opinion*

60. The NZAuASB also considered the implications where the auditor modifies the audit opinion and for this reason the auditor is required to consider the effects of any modification on other areas of the GPFR. For example, a modified opinion in respect of the service performance information may have no impact on the opinion on the financial statements. The NZAuASB has included illustrative examples of modified opinions where the opinion is only modified in respect of service performance information and where the impact is pervasive and impacts the opinion on the whole GPFR.

**Questions for Respondents**

15. Do you agree with the proposed scope and requirements for reporting the auditor's opinion on the GPFR? If not, please explain why not and identify any alternative proposals.
16. 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.
17. Do you agree that the ED should allow flexibility rather than being prescriptive, i.e., requiring a short form but allowing a long form report, to enable the auditor to add

additional information where that information may better inform or meet user's needs? If not, please explain why not.

18. Do you consider that it is necessary for the auditor to opine on the suitability of the entity's service performance criteria explicitly, as illustrated as an alternative in paragraph 56 of this ITC? If so why?
19. Alternatively, do you agree with the proposals in the ED, that it is not necessary to opine on the suitability of the entity's service performance criteria, but that this is implicit and is better covered in the responsibilities of those charged with governance and the responsibilities of the auditor?
20. Which opinion do you consider will be better understood by the user of the auditor's report and why?
21. Are there additional factors that should be described in the description of the responsibilities of those charged with governance in the auditor's report? If yes, please elaborate.
22. Are there additional factors that should be described in the auditor's responsibilities section or that would be helpful to provide a better context about the audit of service performance information? If yes, please elaborate.
23. Is the ED clear as to the implications where the auditor determines that it is necessary to modify the opinion in respect of the service performance information? If not, please expand on what clarification is needed.

## 2.4 Effective Date

61. The NZAuASB proposes to align the effective date of the proposed auditing standard with the effective date of the proposed PBE FRS XX *Service Performance Reporting*. Early adoption will be permitted.

### Question for Respondents

24. Do you agree that aligning the effective date with the proposed Tier 1 and Tier 2 PBE Accounting Requirements is appropriate?

## 2.5 Conforming Amendments

62. The NZAuASB did not wish to reopen and make pervasive changes to the ISAs (NZ) to include service performance information within the scope of the ISAs (NZ). The XRB's strategic objective is for the NZAuASB to be a standard taker and only make changes to the international standards only if there are compelling reasons to do so. Instead of reopening and changing every ISA (NZ), the NZAuASB agreed that it was preferable to include one domestic standard within the ISAs (NZ) to be applied where the GPFR subject to audit includes service performance information.
63. However, the NZAuASB proposes to make limited conforming amendments to the ISAs (NZ) to include illustrative examples of the engagement letter, representation letter and auditor's report. The NZAuASB considered that including the illustrative examples within ISA (NZ) 210<sup>12</sup>, ISA (NZ) 580<sup>13</sup> and ISA (NZ) 700 (Revised)<sup>14</sup> would best enable the auditor to apply the appropriate ISA (NZ) where GPFR includes service performance information.

<sup>12</sup> ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*

<sup>13</sup> ISA (NZ) 580, *Written Representations*

<sup>14</sup> ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

NEW ZEALAND AUDITING STANDARD XX

THE AUDIT OF SERVICE PERFORMANCE INFORMATION

*Issued by the New Zealand Auditing and Assurance Standards Board*

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## Conforming Amendments to Other Pronouncements

### Accompanying Attachment: Conformity to International Standards on Auditing

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New Zealand Auditing Standard (NZ AS) XX, *The Audit of Service Performance Information*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

**History of Amendments**

**Table of pronouncements – NZ AS XX *The Audit of Service Performance Information***

This table lists the pronouncements establishing and amending NZ AS XX.

<b>Pronouncements</b>	<b>Date approved</b>	<b>Effective date</b>
New Zealand Auditing Standard XX		This NZ AS is effective for [date]

## **Introduction**

### **Scope of this NZ AS**

1. This New Zealand Auditing Standard (NZ AS) deals with the auditor's responsibilities with respect to service performance information when an auditor is engaged to audit the general purpose financial report. Such an engagement would only be undertaken by the independent auditor of the financial statements of the entity. The auditor performs the audit of the service performance information concurrently with the audit of the financial statements. (Ref: Para. A1–A2)
2. This NZ AS establishes requirements and provides guidance not addressed by the International Standards on Auditing (New Zealand) (ISAs (NZ)) with respect to service performance information. (Ref: Para. A3)
3. This NZ AS applies when the auditor is required by law or regulation or is otherwise engaged to audit the general purpose financial report, that is, engaged to audit both the financial statements and the service performance information. For purposes of this NZ AS, the financial statements and the service performance information are collectively referred to as the general purpose financial report. (Ref: Para. A4–A5, Appendix 1)
4. This NZ AS is not applicable when a review engagement is to be performed on the general purpose financial report.

### **Effective Date**

5. This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after [date]. Early adoption is permitted.

### **Objectives**

6. The objectives of the auditor are:
  - (a) To evaluate whether the entity's service performance criteria provide a reasonable basis for reporting the entity's service performance and meet the principles of the applicable financial reporting framework;
  - (b) To obtain reasonable assurance about whether the service performance information included in the general purpose financial report is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on the service performance information;
  - (c) To report, in accordance with the auditor's findings, about whether the service performance information included in the general purpose financial report is prepared, in all material respects in accordance with the applicable financial reporting framework; and
  - (d) To communicate further as required by the ISAs (NZ) and this NZ AS, in accordance with the auditor's findings.



## Definitions

7. For purposes of this NZ AS, the following terms have the meanings attributed below:
- (a) General purpose financial report – Comprise the financial statements and service performance information and, where applicable, entity information, prepared in accordance with the applicable financial reporting framework. The general purpose financial report may be referred to as a Performance Report. (Ref: Appendix 1)
  - (b) Misstatement – A difference between the reported service performance information and the appropriate measurement or evaluation that is required by the entity’s service performance criteria and in accordance with the applicable financial reporting framework. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud.
  - (c) Other information – Financial or non-financial information (other than the financial statements, service performance information, entity information, if applicable and the auditor’s report thereon) included in an entity’s annual report. (Ref: Para. A5)
  - (d) Risk of material misstatement – The risk that the service performance information is materially misstated.
  - (e) Service performance criteria – The benchmarks used to measure or evaluate the entity’s service performance. The entity’s service performance criteria include the goods and services reported and related performance measures and/or descriptions used for the particular engagement, adopted by the entity, applicable to its circumstances, with logical links to the entity’s overall purpose and strategies, in accordance with the applicable financial reporting framework. (Ref: Para. A6–A8, A13, Appendix 2)
  - (f) Suitability of the entity’s service performance criteria – The entity’s service performance criteria will be suitable when they enable users to make an informed assessment of the entity’s service performance, are reasonable quantitative or qualitative measures of service performance against which the entity’s service performance may be assessed and are of particular value or importance for accountability and decision-making purposes. (Ref: Para. A14–A21)

## Requirements

### Conduct of the Engagement in Accordance with ISAs (NZ)

8. The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information, as appropriate. Where an entity is required to include entity information within the general purpose financial report, and the auditor is engaged to audit the general purpose financial report, the auditor shall also apply the ISAs (NZ) to the entity information, as appropriate. (Ref: Para. A8–A12, Appendix 1)
9. The auditor shall not represent compliance with this NZ AS unless the auditor has complied with the requirements of both this NZ AS and the ISAs (NZ).

### General Principles of an Audit of the General Purpose Financial Report

10. The auditor shall plan and perform the audit by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause

the service performance information to require a material adjustment for it to be prepared in all material respects, in accordance with the applicable financial reporting framework.

### **Preconditions for an Audit of the General Purpose Financial Report**

11. ISA (NZ) 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.<sup>15</sup> When establishing whether the precondition for the audit of the service performance information are present the auditor shall evaluate, based on the auditor's preliminary knowledge of the entity, whether the service performance criteria adopted by the entity:
  - (a) Are suitable; and (Ref: Para. A13–A26)
  - (b) Are available to intended users. (Ref: Para. A13, A27–A28)
12. The entity's service performance criteria shall be considered to be suitable where the auditor, applying professional judgement, considers that the entity's application of the qualitative characteristics and balance of the pervasive constraints on information<sup>16</sup> are appropriate in the circumstances and in accordance with the applicable financial reporting framework. (Ref: Para. A13–A26)
13. In order to establish whether the preconditions for the audit are present, the auditor shall obtain the agreement of those charged with governance that they acknowledge and understand their responsibility:
  - (a) To adopt service performance criteria in accordance with the applicable financial reporting framework that are suitable in the context of the entity and identify whether they were specified by law, regulation, contract, another party (e.g., a user group) or developed by the entity; (Ref: Para. A13–A14, A27–A28)
  - (b) For the preparation of service performance information in accordance with the entity's service performance criteria and the applicable financial reporting framework, including that all relevant matters are reflected in the service performance information;
  - (c) For such internal control as those charged with governance determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error; and
  - (d) To provide the auditor with access to all information of which those charged with governance are aware that is relevant to the preparation of the service performance information such as records, documentation and other matters.
14. If the auditor is concerned about the suitability of the entity's service performance criteria, the auditor shall discuss the matter with those charged with governance as soon as possible. If changes are not made to the entity's service performance criteria where the auditor consider changes are required, the auditor shall consider the implications for the audit, the auditor's report and the opinion on the service performance information. In such

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<sup>15</sup> ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

<sup>16</sup> The qualitative characteristics of information and the pervasive constraints on information are identified in the Public Benefit Entities' Conceptual Framework.

circumstances, the auditor is not required to withdraw from the audit of the general purpose financial report.

### **Agreement on Audit Engagement Terms**

15. ISA (NZ) 210 requires the auditor to agree the terms of the audit engagement with those charged with governance and describes what the agreed terms shall cover.<sup>17</sup> In addition to the terms agreed to in accordance with ISA (NZ) 210, the terms of the audit engagement shall include: (Ref: Para. A29)
  - (a) The objective and scope of the audit of the service performance information in accordance with International Standards on Auditing (New Zealand) and this NZ AS;
  - (b) The responsibilities of the auditor with respect to the service performance information;
  - (c) The responsibilities of those charged with governance, including those described in paragraph 13;
  - (d) The content of the auditor's report, including whether it will be a long form report, including additional information about the service performance criteria, detailed findings or recommendations to meet the needs of the intended users.

### **Documentation**

16. In meeting the documentation requirements of ISA (NZ) 230,<sup>18</sup> the auditor shall document the nature, timing and extent of the audit procedures performed to comply with this NZ AS. (Ref: Para. A30)
17. The audit documentation shall, as far as possible, provide evidence of the correlation between the audit evidence obtained related to the financial statements and the service performance information.

### **Laws and Regulations**

18. As part of obtaining an understanding of the entity and its environment in accordance with ISA (NZ) 315 (Revised),<sup>19</sup> the auditor shall obtain an understanding of:
  - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates and, in particular, laws and regulations that specify the form, content, preparation and audit of service performance information; and
  - (b) How the entity is complying with that framework.
19. ISA (NZ) 250 (Revised)<sup>20</sup> requires that the auditor obtain sufficient appropriate audit evidence regarding compliance with the provisions of laws and regulations generally recognised to have a direct effect on material amounts and disclosures in the financial

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<sup>17</sup> ISA (NZ) 210, paragraph 9-10

<sup>18</sup> ISA (NZ) 230, *Audit Documentation*, paragraphs 7-16

<sup>19</sup> ISA (NZ) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 11

<sup>20</sup> ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

statements. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct effect on the reporting of service performance information.

### **Communication with Those Charged with Governance**

20. ISA (NZ) 260 (Revised) requires the auditor to communicate specified matters with those charged with governance.<sup>21</sup> In addition to these matters, the auditor shall also communicate:
  - (a) The auditor's views about critical judgements made in reporting the entity's service performance information, including any deficiencies or areas for improvement. For example, why the auditor considers the entity's service performance criteria are not suitable to the circumstances; (Ref: Para. A31)
  - (b) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations; and
  - (c) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.

### **Planning**

21. ISA (NZ) 300 requires that the auditor establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.<sup>22</sup> The auditor shall develop the audit plan to concurrently cover the financial statement information together with the service performance information so that the audit is performed in the most effective manner and reflects any correlation with the audit of the financial statements.
22. In establishing the overall audit strategy, the auditor shall:
  - (a) Obtain an understanding of the applicable financial reporting framework relevant to service performance information;
  - (b) Obtain an understanding of who the intended users are and what their information needs are;
  - (c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information.
23. The auditor shall discuss with those charged with governance where and how the entity intends to report its service performance information. (Ref: Para. A32)
24. If the entity intends to report service performance information about goods or services provided by other entities, the auditor shall liaise with the auditor of the other entity when planning the audit of the service performance information. (Ref: Para. A33)

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<sup>21</sup> ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 14-17

<sup>22</sup> ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 7

## **Materiality in Planning and Performing the Engagement**

25. ISA (NZ) 320 requires the auditor to determine and document materiality.<sup>23</sup> The auditor shall also determine and document materiality to be applied to the service performance information. The auditor shall determine the materiality level or levels for quantitative service performance information and the materiality factor or factors for the service performance information separate from the materiality levels determined for the financial statements, where appropriate. (Ref: Para. A34–A42)
26. The auditor shall determine performance materiality for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. The basis and level may differ from the basis and level for determining performance materiality as required by ISA (NZ) 320.
27. The auditor shall revise materiality for the service performance information if matters come to the auditor’s attention during the audit that would have caused the auditor to have determined different levels or factors initially.

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

28. In applying ISA (NZ) 315 (Revised) to the service performance information, the auditor performs risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement.<sup>24</sup> The auditor shall identify and assess the risks of material misstatement of the service performance information, whether due to fraud or error, at the general purpose financial report, service performance information and assertion levels, through understanding the entity and its environment, including the entity’s internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement in accordance with ISA (NZ) 315 (Revised).

### *Obtaining an Understanding of the Entity and Its Environment*

29. In applying ISA (NZ) 315 (Revised), the auditor shall obtain an understanding of the nature and purpose of the entity, what it is accountable or responsible for, what the entity intends to achieve during the reporting period, how it goes about achieving its service performance objectives and any other factors relevant to an understanding of the entity’s service performance.
30. The auditor’s understanding shall include:
  - (a) The extent to which the entity’s service performance criteria are consistent with and clearly linked to the entity’s overall purpose and strategies and the relationship between the financial statement information and the service performance information; (Ref: Para. A43–A45)
  - (b) The extent to which the entity’s service performance criteria are consistent with those used by the entity for internal decision making;

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<sup>23</sup> ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 10 and 14

<sup>24</sup> ISA (NZ) 315 (Revised), paragraph 5

- (c) The entity’s process for identifying suitable service performance criteria, what other options were considered and how much discretion the entity has over selection and aggregation of its service performance information;
  - (d) The extent to which the application of the qualitative characteristics has influenced the service performance criteria;
  - (e) The extent to which consultation with users influenced the service performance criteria; and
  - (f) The judgements made in deciding when to provide comparative narrative and descriptive information.
31. The auditor shall evaluate whether the entity’s service performance criteria are in accordance with the applicable financial reporting framework and are suitable, including that they exhibit the characteristics identified in paragraph A17, and provide a reasonable basis for reporting the service performance of the entity that is useful for accountability and decision-making purposes.
32. If the entity’s service performance criteria have changed from the prior period, the auditor shall evaluate whether the changes are suitable in the circumstances, have been approved appropriately, and are explained within the service performance information.
33. The auditor shall evaluate:
- (a) If significant aspects of service performance have been excluded, that have been, or could readily be, measured and/or described, whether such exclusions are reasonable in the circumstances; or
  - (b) Whether the service performance criteria inappropriately attribute service performance to the entity.
34. If the auditor considers, in accordance with paragraphs 31–33, that all or some of the entity’s service performance criteria: (Ref: Para. A46)
- (a) Fail to comply with the applicable financial reporting framework and are not suitable; or
  - (b) Otherwise fail to provide a reasonable basis for fairly reflecting the service performance of the entity;
- the auditor shall discuss the matter with those charged with governance on a timely basis. The auditor shall determine:
- (a) Whether the matter can be resolved to the auditor’s satisfaction;
  - (b) Whether further audit procedures can be performed with respect to the service performance information; or (Ref: Para. A47)
  - (c) Whether, and if so, how to communicate the matter in the auditor’s report where the matter is not resolved to the auditor’s satisfaction.
35. If the auditor considers that some or all of the entity’s service performance criteria are unsuitable, the auditor shall express a qualified, adverse, or a disclaimer of opinion, as appropriate in the circumstances, with respect to the service performance information. (Ref: Para. A66–A68)

36. The auditor shall consider the impact of the modified opinion with respect to the service performance information on the financial statements.

*Obtaining an Understanding of the Entity's Internal Control*

37. ISA (NZ) 315 (Revised) requires the auditor to obtain an understanding of the internal control relevant to the audit.<sup>25</sup> The auditor shall:
- (a) Obtain an understanding of internal control over the preparation of the service performance information; and
  - (b) Evaluate the design of those controls and determine whether they have been implemented as designed. (Ref: Para. A48)

*Identifying and Assessing Risks of Material Misstatement*

38. The auditor shall identify and assess the risks of material misstatement:
- (a) At the general purpose financial report level in accordance with ISA (NZ) 315 (Revised);<sup>26</sup>
  - (b) At the service performance information level; and
  - (c) At the assertion level for material service performance information. (Ref: Para. A49)

**The Auditor's Responses to Assessed Risks**

39. In applying ISA (NZ) 330<sup>27</sup> to the service performance information, the auditor shall design and perform procedures whose nature, timing and extent:
- (a) Are responsive to assessed risks of material misstatement of the service performance information; and
  - (b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement.
40. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of the relevant controls over the service performance information when:
- (a) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively, or
  - (b) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence. (Ref: Para. A50)
41. In designing and performing the procedures, the auditor shall:
- (a) Consider the reasons for the assessment given to the risks of material misstatement at the assertion level for material service performance information, including:

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<sup>25</sup> ISA (NZ) 315 (Revised), paragraph 12

<sup>26</sup> ISA (NZ) 315 (Revised), paragraph 25

<sup>27</sup> ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

- (i) The likelihood of material misstatement due to the particular characteristics of the relevant information or disclosure (i.e., the inherent risk); and
    - (ii) Whether the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of other procedures; and
  - (b) Obtain more persuasive evidence the higher the auditor's assessment of risk. (Ref: Para. A51–A52)
42. The auditor's assessment of the risks of material misstatement of the service performance information may change during the course of the audit as additional evidence is obtained. In circumstances where the auditor obtains evidence that is inconsistent with the evidence on which the auditor originally based the assessment of the risks of material misstatement, the auditor shall revise the assessment and modify the planned procedures accordingly.

### **Audit Considerations Relating to an Entity Using a Service Organisation**

43. ISA (NZ) 402<sup>28</sup> deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations. If services provided by a service organisation are relevant to the audit of the service performance information, the auditor shall obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and design and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402. (Ref: Para. A33)

### **Evaluation of Misstatements Identified During the Audit**

44. The auditor shall accumulate misstatements identified during the audit in accordance with ISA (NZ) 450<sup>29</sup> and consider them individually and collectively, other than those that are clearly trivial.
45. The auditor shall communicate on a timely basis all misstatements accumulated with the appropriate level within the entity and shall request the entity to correct those misstatements.

### **Audit Evidence**

46. ISA (NZ) 500 requires the auditor to design and perform audit procedures for the purpose of obtaining sufficient appropriate audit evidence.<sup>30</sup> The auditor shall obtain sufficient appropriate audit evidence to support material service performance information, correlating, as far as possible, with the audit evidence obtained in the audit of the financial statements. (Ref: Para. A53–A54)
47. The auditor shall consider the relevance and reliability of the information to be used as audit evidence. If:
- (a) Evidence obtained from one source is inconsistent with that obtained from another; or

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<sup>28</sup> ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

<sup>29</sup> ISA (NZ) 450, *Evaluation of Misstatements Identified During the Audit*

<sup>30</sup> ISA (NZ) 500, *Audit Evidence*, paragraph 6



- (b) The auditor has doubts about the reliability of information to be used as evidence, the auditor shall determine whether additional procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.
48. The auditor's procedures shall include:
- (a) Agreeing or reconciling amounts reported in the service performance information to any underlying financial records;
  - (b) Agreeing cross references between the service performance information and the financial statements;
  - (c) Understanding any allocation methods adopted and assumptions made, and determining whether the methods adopted are appropriate, have been applied consistently and are consistent with the applicable financial reporting framework; and
  - (d) Reconciling the aggregate amounts reported in the service performance information to the amounts reported in the financial statements.
49. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of critical judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.

### **Analytical Procedures**

50. When designing analytical procedures in accordance with ISA (NZ) 520,<sup>31</sup> the auditor shall evaluate the service performance information through analysis of plausible relationships among both financial and non-financial data.

### **Written Representations**

51. ISA (NZ) 580 requires the auditor to request written representations from those charged with governance.<sup>32</sup> The auditor shall also request written representations from those charged with governance with appropriate responsibilities for the service performance information and knowledge of the matters concerned. (Ref: Para. A55)
52. The auditor shall request those charged with governance to provide a written representation that they have fulfilled their responsibility:
- (a) To adopt service performance criteria in accordance with the applicable financial reporting framework that are suitable in the context of the entity; (Ref: Para. A17)
  - (b) For the preparation of service performance information in accordance with the entity's service performance criteria and the applicable financial reporting framework, including that all relevant matters are reflected in the service performance information;
  - (c) For such internal control as those charged with governance determine is necessary to enable the preparation of service performance information that is free from material

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<sup>31</sup> ISA (NZ) 520, *Analytical Procedures*, paragraph 6

<sup>32</sup> ISA (NZ) 580, *Written Representations*, paragraph 9

misstatement, whether due to fraud or error;

- (d) To provide the auditor with access to all information of which those charged with governance are aware that is relevant to the preparation of the service performance information such as records, documentation and other matters;

as set out in the terms of the audit engagement.

### **Special Considerations—Audits of Groups**

- 53. ISA (NZ) 600<sup>33</sup> deals with special considerations that apply to group audits, in particular those that involve component auditors. The group auditor shall obtain sufficient appropriate audit evidence regarding the service performance information of the components and the consolidation process to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A33)

### **Using the Work of an Auditor's Expert**

- 54. ISA (NZ) 620<sup>34</sup> deals with the auditor's responsibilities relating to the work of an auditor's expert when that work is used to assist the auditor in obtaining sufficient appropriate audit evidence. The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert. (Ref: Para. A56)

### **Using the Work of Another Practitioner**

- 55. When the auditor intends to use the work of another practitioner, the auditor shall:
  - (a) Communicate clearly with the other practitioner about the scope and timing of the work and findings of the other practitioner; and
  - (b) Evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information. (Ref: Para. A57)

### **Forming an Opinion and Reporting**

- 56. ISA (NZ) 700 (Revised)<sup>35</sup> requires the auditor to form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. In addition, the auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A58)
- 57. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance and shall take into account:

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<sup>33</sup> ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>34</sup> ISA (NZ) 620, *Using the Work of an Auditor's Expert*

<sup>35</sup> ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 10

- (a) The auditor’s conclusion whether sufficient, appropriate audit evidence has been obtained;
  - (b) The auditor’s conclusion whether uncorrected misstatements are material, individually or collectively;
  - (c) The auditor’s evaluation of whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework; and
  - (d) The evaluations in paragraph 58.
58. The auditor shall conclude whether, in view of the applicable financial reporting framework:
- (a) The entity’s service performance criteria are suitable, including whether: (Ref: Para. A17)
    - (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; (Ref: Para A21)
    - (ii) The entity has appropriately applied the qualitative characteristics and pervasive constraints of information including:
      - i. Completeness – All information that should have been included has been included; (Ref: Para A23)
      - ii. Neutrality – The service performance information is free from any pattern of bias or other form of material misstatement across the service performance information; (Ref: Para. A25)
      - iii. Reliability – The entity is able to provide evidence to support the service performance information reported including whether, and the extent to which, its performance has resulted in any improvements or effects of a project reported; (Ref: Para. A24)
      - iv. Relevance – The service performance information is appropriately linked to the entity’s overall purpose and strategies; (Ref: Para. A22)
      - v. Understandability – The service performance information is appropriately aggregated or disaggregated to enable the user to understand the information. (Ref: Para. A26)
    - (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. (Ref: Para. A59)
  - (b) The service performance information adequately refers to or describes the entity’s service performance criteria; (Ref: Para. A60)
  - (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.
59. The auditor shall consider:
- (a) Any matters arising during the course of the audit of the financial statements that may affect the auditor's evaluation of the service performance information.
  - (b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.

### Report Content

60. The auditor's report on the service performance information shall be included in a single report on the general purpose financial report and shall include the elements required by ISA (NZ) 700 (Revised). (Ref: Para. A61–A62)
61. 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 (Ref: Para. A63-A65)
  - (d) Include the auditor's opinion on the service performance information prepared in accordance with the applicable financial reporting framework.
62. When expressing an unmodified opinion on the service performance information prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
- (a) In our opinion:
    - The accompanying financial report presents fairly, in all material respects,
      - the *[financial position of the [entity] as at December 31, 20X1, and its financial performance and its cash flows]* for the year then ended; and
      - the service performance information for the year then ended
 in accordance with *[the applicable financial reporting framework]*; or
  - (b) In our opinion:
    - The accompanying financial report gives a true and fair view of
      - the *[financial position of the [entity] as at December 31, 20X1, and*

*of its financial performance and its cash flows]* for the year then ended; and

- the service performance information for the year then ended

in accordance with [*the applicable financial reporting framework*].

63. In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised), the auditor's report shall:

- (a) State, in the basis for opinion section, that the audit of the service performance information was conducted in accordance with International Standards on Auditing (New Zealand) and New Zealand Auditing Standard XX;
- (b) Describe, in the responsibilities for the financial report section, the responsibilities of those charged with governance:
  - To adopt service performance criteria in accordance with the [*applicable financial reporting framework*] that are suitable in the context of the entity;
  - For the preparation of the service performance information in accordance with [identify the entity's service performance criteria and the applicable financial reporting framework];
  - For such internal control as those charged with governance determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error; and
  - To provide the auditor with access to all information of which those charged with governance are aware that is relevant to the preparation of the service performance information such as records, documentation and other matters.

When the general purpose financial report is prepared in accordance with a fair presentation framework, the description of responsibilities for the financial report in the auditor's report shall refer to "the preparation and fair presentation of the service performance information" or the "preparation of service performance information that gives a true and fair view," as appropriate in the circumstances;

- (c) In the "Auditor's Responsibilities for the Audit of the Financial Report" section:
  - State that the objectives of the auditor are to obtain reasonable assurance about whether the service performance information as a whole is free from material misstatement, whether due to fraud or error;
  - Describe the audit by stating that, in accordance with this New Zealand Auditing Standard, the auditor's responsibilities are to evaluate:
    - i. The suitability of [the entity's service performance criteria] as the basis for the preparation of the reported service performance information;
    - ii. The overall presentation, structure and content of the service performance information, and whether the service performance information represents the underlying service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation; and

- iii. The consistency of the information reported in the financial statements and the service performance information.

### **Key Audit Matters**

64. The auditor may be required, or may voluntarily report key audit matters in the auditor's report in accordance with ISA (NZ) 701.<sup>36</sup> If reported, key audit matters shall include matters related to the audit of the service performance information where, in the auditor's judgement, such matters were of most significance to the audit of the general purpose financial report.

### **Modifications to the Opinion in the Independent Auditor's Report**

65. The auditor shall modify the opinion, with respect to the service performance information, in the auditor's report in accordance with ISA (NZ) 705 (Revised)<sup>37</sup> when:
  - (a) The auditor concludes that the entity's service performance criteria are not suitable; (Ref: Para A17–A26)
  - (b) The auditor concludes, based on the audit evidence obtained, that the service performance information as a whole is not free from material misstatement; or (Ref: Para. A66–A71)
  - (c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information as a whole is free from material misstatement.
66. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effects of the modification on the opinion on the financial statements. If the reason for the modified opinion impacts on the general purpose financial report as a whole, the auditor shall modify the opinion on the general purpose financial report.
67. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings "Qualified Opinion on the Service Performance Information", "Adverse Opinion on the Service Performance Information" or "Disclaimer of Opinion on the Service Performance Information" as appropriate. The opinion with respect to the financial statements shall use the heading "Opinion on the Financial Statements".
68. If the auditor modifies the opinion on the financial statements in accordance with ISA (NZ) 705 (Revised), the auditor shall consider the effect of the modification on the opinion on the service performance information. (Ref: Para. A72)

### **Emphasis of Matter Paragraphs and Other Matter Paragraphs**

69. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information, that in the auditor's judgement, is of such

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<sup>36</sup> ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>37</sup> ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditors Report*

importance that it is fundamental to users' understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor's report in accordance with ISA (NZ) 706 (Revised).

70. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor's judgement, is relevant to user's understanding of the audit of the service performance information, the auditor shall include an Other Matter paragraph in the auditor's report in accordance with ISA (NZ) 706 (Revised).

### **Comparative Information**

71. ISA (NZ) 710 requires the auditor to evaluate whether the comparative information agrees with the amounts and disclosures presented in the prior period.<sup>38</sup> In addition, the auditor shall evaluate whether the entity's service performance criteria adopted by the entity are consistent with those applied in the prior period or, if there have been changes, whether those changes are appropriate and have been adequately explained.
72. Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall evaluate whether the prospective service performance information presented in the general purpose financial report agrees with the information presented in the published prospective service performance information.

### **Other Information**

73. In addition to the considerations required by ISA (NZ) 720 (Revised),<sup>39</sup> the auditor shall read the other information and consider whether there is a material inconsistency between: (Ref: Para. A73–A74)
  - (a) The other information and the service performance information; and
  - (b) The other information and the auditor's knowledge obtained in the audit of the general purpose financial report.

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## **Application and Other Explanatory Material**

### **Scope of this NZ AS (Ref: Para. 1–3, 7(c))**

- A1. Some public benefit entities are required by the applicable financial reporting framework to prepare service performance information as part of the general purpose financial report. Service performance information is required in addition to the financial statements to be useful for accountability and decision-making purposes because public

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<sup>38</sup> ISA (NZ) 710, *Comparative Information-Corresponding Figures and Comparative Financial Statements*, paragraph 7

<sup>39</sup> ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

benefit entities have a primary objective of providing goods and services for community or social benefit.

- A2. Service performance is a narrower concept than non-financial performance and refers only to the service performance information required by the applicable financial reporting framework.
- A3. Work performed in the audit of the financial information can often be used for the purpose of the audit of the service performance information. By highlighting matters that are common to both the financial and service performance information, this NZ AS assists the auditor to accept, plan, perform and report in an effective manner, as well as highlighting areas where there are differences. This is to enable the auditor to perform the work concurrently, effectively and in an all-encompassing manner.
- A4. Appendix 1 illustrates what constitutes the general purpose financial report.
- A5. Some entities that are required by the applicable financial reporting framework to include service performance information in the general purpose financial report, may not be required by law or regulation to have the general purpose financial report audited or reviewed. For example, tier 3 registered charities with operating expenditure under \$500,000, and all tier 4 registered charities may have no statutory assurance requirements. Where the service performance information is not within the scope of the audit engagement, the auditor's responsibility for the service performance information is limited to following the requirements in ISA (NZ) 720 (Revised).

#### **Definitions (Ref: Para. 7(e))**

- A6. The applicable financial reporting framework includes principles to guide an entity to adopt suitable service performance criteria. The entity will adopt its own applicable entity service performance criteria, following the principles established in the financial reporting framework, to determine the applicable service performance information to report, how to measure and/or describe that information and how the service performance information is structured and is related to each other and the entity's overall purpose and strategies. This information is drawn from relevant documents such as founding documents, governance documents, accountability documents and planning documents. For example, a not-for-profit entity's selection of service performance criteria would be determined with reference to its constitution, trust deed, mission statement (vision, purpose), and its most recent plans and strategies. The service performance criteria may also be influenced by agreements between funders and an entity or between an entity and other entities that it uses to deliver goods and services and by other aspects specific to the entity's circumstance. If the entity uses a performance framework, theory of change or intervention logic, such a framework may already have established service performance criteria. For example, a local authority's Long-Term Plan provides a meaningful performance framework for its activities.
- A7. Suitable service performance criteria are required for a reasonably consistent measurement or evaluation of the underlying service performance within the context of professional judgement. Without the frame of reference provided by suitable service performance criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same underlying service performance there can be different service performance criteria, which will yield a different measurement or description. For



example, a preparer might select, as one of the entity's service performance criteria, the levels of satisfaction using a rating scale on a survey; another preparer might select to report the number of complaints received. These are both examples of how the entity assesses whether its service performance activities change the well-being and circumstance of a client group. Suitable criteria include criteria for presentation and disclosure.

A8. Principles and requirements for the reporting of service performance information are specified within the applicable financial reporting framework as follows:

- (a) For Tier 1 and Tier 2 public benefit entities, [proposed] *PBE FRS XX Service Performance Reporting*.
- (b) For Tier 3 public benefit entities, PBE Simple Format Reporting – Accrual.
- (c) For Tier 4 public benefit entities, PBE Simple Format Reporting – Cash.

The Tier 3 and Tier 4 requirements also require entity information to be reported as part of the general purpose financial report. These requirements refer to the general purpose financial report as a performance report. For the purposes of this NZ AS, references to service performance information shall be taken to include service performance information and entity information, for Tier 3 or Tier 4 entities.

#### **Conduct of the Engagement in Accordance with ISAs (NZ) (Ref: Para. 8)**

A9. The ISAs (NZ) are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. Although the service performance information is considered to be an integral part of an entity's general purpose financial report, the nature of the information included in the service performance information includes non-financial information which is not part of the financial statements as defined in the ISAs (NZ) and therefore is not covered by the scope of the ISAs (NZ). However, the requirements of the ISAs (NZ) apply equally to an audit of the entire general purpose financial report, prepared in accordance with the applicable financial reporting framework, where that financial reporting framework also incorporates requirements to prepare service performance information.

A10. International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised) deals with assurance engagements other than audits of historical financial information, which are dealt with in the ISAs (NZ). This NZ AS, together with the ISAs (NZ), covers all aspects of the audit of the general purpose financial report and therefore there is no requirement for the auditor to apply ISAE (NZ) 3000 (Revised) to the service performance information.

A11. This NZ AS supplements, but does not replace the ISAs (NZ). It expands on how the ISAs (NZ) are to be applied to the service performance information. This NZ AS includes specific requirements for the service performance information that are not dealt with by the ISAs (NZ) or where the application of the ISAs (NZ) differs as a result of the nature of the service performance information.

A12. The relevance of each of the ISAs (NZ) to the service performance information requires careful consideration. For example, ISA (NZ) 240,<sup>40</sup> ISA (NZ) 540,<sup>41</sup> ISA (NZ) 550<sup>42</sup> and ISA (NZ) 570 (Revised)<sup>43</sup> are, in principle, relevant. This is because the service performance information could be misstated as a result of fraud, misstated estimates, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

**Preconditions for an Audit of the General Purpose Financial Report (Ref: Para. 7(e)–(f), 11–13)**

A13. A condition for acceptance of an assurance engagement is that the criteria referred to in the definition of an assurance engagement are suitable and available to intended users.<sup>44</sup> For purposes of this NZ AS, the applicable financial reporting framework together with the entity's service performance criteria provide the criteria for the engagement.

A14. Without the adoption of suitable service performance criteria specific to the entity's circumstances, the entity does not have an appropriate basis on which to prepare the service performance information and the auditor does not have suitable criteria for auditing the service performance information.

A15. The selection and presentation of service performance information is more judgemental than financial information. The entity may identify or select external service performance criteria to adopt or it may develop its own service performance criteria. Those charged with governance are responsible for adopting service performance criteria that meet the principles of the applicable financial reporting framework that will enable a meaningful assessment of the entity's service performance. Adoption of suitable service performance criteria in accordance with the principles of the applicable financial reporting framework involves the exercise of significant judgement about the most appropriate goods and services, performance measures and/or descriptions to report, and how the information is aggregated and presented. The need for such judgement makes the adoption of suitable service performance criteria inherently more susceptible to the risk of bias.

A16. The application of professional scepticism by the auditor is particularly important when assessing the neutrality and other characteristics of entity developed criteria due to the level of judgement to be exercised by the entity. This is particularly important if the entity's service performance criteria are not substantially based on established service performance criteria generally used in the entity's sector, or are inconsistent with such service performance criteria.

A17. Suitable criteria exhibit the following characteristics:

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<sup>40</sup> ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>41</sup> ISA (NZ) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>42</sup> ISA (NZ) 550, *Related Parties*

<sup>43</sup> ISA (NZ) 570 (Revised), *Going Concern*

<sup>44</sup> ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, paragraph 24

- (a) Relevance
- (b) Completeness
- (c) Reliability
- (d) Neutrality
- (e) Understandability.

A18. When evaluating whether the entity's service performance criteria are suitable, the auditor may consider the various components of the service performance information and check for credible links, internal logic and consistency with the financial information.

A19. The qualitative characteristics<sup>45</sup> are not mutually exclusive, and the relative importance of each qualitative characteristic will vary according to the circumstances.

A20. The auditor applies professional scepticism recognising that circumstances may exist that cause the selection and adoption of service performance criteria to be biased, incomplete or otherwise contrary to the qualitative characteristics required by the applicable financial reporting framework.

A21. When making judgements about whether the entity's service performance criteria are suitable, the auditor may consider:

- (a) The users of general purpose financial reports and their information needs;
- (b) How the qualitative characteristics have influenced the service performance criteria (e.g., service performance information must be relevant, but the overall volume of information must also be accessible in order for it to be understandable);
- (c) How the nature and size of items of information, judged in the surrounding circumstances, affect presentation and disclosure;
- (d) Disclosure of the critical judgements made by the entity; and
- (e) Where financial and service performance information that is material is presented and disclosed.

A22. Factors that the auditor may consider when evaluating whether the entity's service performance criteria are relevant include: (Ref: Para 29)

- The rationale for the selection of the service performance criteria, for example, whether the service performance criteria relate to a significant risk to the public (e.g., the purity of water supply) or that could have a positive or negative effect on social, economic, or environmental wellbeing.
- Whether the service performance criteria meet the needs of users so as to be useful for decision making, for example, is of significant community interest or interest to the public.

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<sup>45</sup> The description of the qualitative characteristics may differ between financial reporting frameworks depending on what tier the entity is reporting under. The descriptions in the applicable financial reporting framework may differ from the characteristics described in paragraph A14. The guidance in paragraphs A15-A23 may need to be tailored to the applicable financial reporting framework.

- The extent to which consultation with users has influenced the service performance criteria.
- Whether the service performance criteria show clear and logical links between the entity's overall purpose and strategies and the service performance information reported so that the rationale for their selection is evident.
- Whether the information is consistent and clearly linked with the financial information for example, relates to service performance that is financially material; or relates to a service performance measure that may have a significant effect on management performance rewards.

A23. Factors that the auditor may consider when evaluating whether the entity's service performance criteria are complete include whether:

- All significant aspects of service performance that would enable the user to make an informed assessment are included;
- The service performance criteria include negative aspects of performance or areas where there is a significant risk of performance failure by the entity.

Completeness relates more to a balanced reflection of service performance rather than an overly comprehensive and extensive set of service performance criteria which can result in too much information, reducing the relevance of the report.

A24. Factors that the auditor may consider when evaluating whether the entity's service performance criteria are reliable include whether the service performance criteria:

- Are capable of measurement or description in a consistent manner;
- Are well defined and there is likely to be evidence to support the information reported;
- Are capable of validation by the auditor and does not include unsubstantiated claims, including whether there is a robust and reliable collection process;
- Are likely to result in service performance information that is free from material misstatements, including omission of fact, or misrepresentation of trend;
- Are consistent with industry benchmarks, where these are available.

A25. Factors that the auditor may consider when evaluating whether the entity's service performance criteria are neutral include whether the service performance criteria:

- Are balanced, and are likely to result in information that is aggregated, where appropriate, and covers all important aspects with suitable emphasis to fairly reflect the significance to the entity's performance;
- Covers both favourable and unfavourable aspects of the entity's service performance in an unbiased manner;
- Or changes to the service performance criteria are not made arbitrarily to remove negative aspects of performance year on year.

Special care may be necessary to evaluate whether the service performance information is neutral, for example, where there are no service performance criteria established externally, no predetermined measures established with key stakeholders as performance objectives or

targets or no guidelines developed by an external industry group.

A26. Factors that the auditor may consider when evaluating whether the service performance criteria are understandable include whether:

- The format adopted is clearly laid out and presented in a way that will enable the user to identify the main points of the entity's service performance in that year;
- The assessment of service performance is coherent, easy to follow, and will result in service performance information that is clear and logical;
- The service performance criteria are concise and aggregated where appropriate;
- The information is explained and presented in a way that makes its significance clear and understandable.

A27. In determining whether the service performance criteria are available to users, the auditor may consider whether there is enough context for the service performance information, including the rationale for determining whether:

- (a) The selection of information to report; and
- (b) To include information about the role of other entities, collaborative relationships and the provision of resources to others

is transparent to users so that users can understand the critical judgements made in preparing the service performance information.

A28. Disclosure of the critical judgements made by the entity is important in making the service performance criteria available to intended users, where, for example, the entity has more discretion over the selection and aggregation of service performance information (i.e., the service performance criteria are developed by the entity). Alternatively, the service performance criteria may comprise service performance criteria established in a performance framework supplemented by disclosures, in the explanatory notes to the general purpose financial report.

#### **Agreement on Audit Engagement Terms (Ref: Para. 15)**

A29. The terms of the audit engagement for the audit of the general purpose financial report include references to the service performance information. An example of an audit engagement letter for an audit of the general purpose financial report including service performance information is set out in the Appendix of ISA (NZ) 210.

#### **Documentation (Ref: Para. 16)**

A30. The following are examples of matters that the auditor may consider to be appropriate to include in the audit documentation:

- **Planning:** The overall engagement strategy, the engagement plan, capturing the nature of the plan, reflecting plans to make connections between the financial information and service performance information, and any significant changes made during the engagement, and the reasons for such changes;
- **Materiality:** The materiality level or levels and/or factor or factors for the service performance information and matters considered in their determination;

- Risks of material misstatement: Key elements of the understanding obtained regarding the entity and its environment specified in paragraphs 30 and 31, and the risks of material misstatement for which in the auditor’s professional judgement further procedures were required;
- Procedures: The nature, timing and extent of the further audit procedures performed, the linkage of those further audit procedures with the risks of material misstatement, and the results of audit procedures;
- Evaluation of misstatements: Misstatements accumulated during the engagement and whether they have been corrected, the auditor’s conclusion as to whether uncorrected misstatements are material, and the basis for that conclusion.

### **Communication with Those Charged with Governance (Ref: Para. 20)**

A31. The preparation of service performance information is highly judgemental. As a result, the auditor’s views on the judgemental areas of the entity’s service performance criteria or reporting may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. Open and constructive communication including feedback on the suitability and maturity of the entity’s service performance criteria, and how processes or reporting compares to other entities may drive improvements in reporting over time. This may include comments about, for example, judgemental aspects of the entity’s service performance criteria, concerns regarding bias or the quality of the presentation of the information.

### **Planning (Ref: Para. 23–24)**

A32. ISA (NZ) 200<sup>46</sup> explains that information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference. Such information will form part of the financial statements. Service performance information that is incorporated into the general purpose financial report by cross-reference will form part of the general purpose financial report and will be subject to the audit in accordance with this NZ AS.

A33. The applicable financial reporting framework may allow flexibility in where and how an entity reports its service performance information. It may be appropriate for an entity to report service performance information about goods and services provided by other entities. ISA (NZ) 402 may be relevant to the audit of the service performance information, if the user entity makes use of a service organisation for the preparation of service performance reporting with another entity. Alternatively, ISA (NZ) 600 may be relevant, adapted as necessary to the circumstances, when the auditor involves other auditors in the audit of the service performance information where the service performance information includes information about goods and services provided by other entities.

### **Materiality in Planning and Performing the Engagement (Ref: Para. 25)**

A34. Materiality, in the context of service performance information, relates to both:

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<sup>46</sup> ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph A2

- The suitability of the entity’s service performance criteria to providing a relevant and reliable representation of the entity’s service performance information (refer paragraph A22, A24); and
- The level of misstatement of reported results that, based on the auditor’s judgement, are likely to influence users’ understanding of the entity’s service performance.

A35. The applicable financial reporting framework discusses the concept of materiality in the context of preparation and presentation of service performance information.<sup>47</sup> Material issues are the issues that are taken into consideration when the entity or its stakeholders make decisions. Such a discussion provides a frame of reference to the auditor in determining materiality for the audit. The auditor’s consideration of the suitability of the entity’s service performance criteria also provides context in determining materiality levels.

A36. When determining materiality, the auditor may:

- Discuss the entity’s determination of material service performance information with management and those charged with governance (and, if necessary and appropriate, external stakeholders). It may be appropriate to discuss matters with external stakeholders when the determination of the entity’s material service performance information includes, for example, clearly contentious issues or service performance criteria for which there is no evidence to support the entity’s role in the improvements reported.
- Consider whether the entity’s determination of material service performance information is consistent with the auditor’s knowledge of the entity and the environment, including information obtained from sources such as minutes of meetings, media reports and any stakeholder outreach activities.

### *Materiality levels and factors*

A37. The materiality level or levels for the service performance information are expressed in terms of the appropriate unit of measurement for each element or performance measure reported.

A38. The materiality level or levels are determined based on the auditor’s judgements about the levels above which a misstatement or omission is likely to influence users’ overall understanding of the entity’s service performance. The materiality levels may differ for different types of service performance information. Factors that may affect the identification of appropriate levels include:

- (a) The entity’s service performance criteria.
- (b) The quantity or the nature of the particular disclosure. In some cases, there are particular types of disclosures for which misstatements of lesser or greater amounts than the materiality levels for the service performance information as a whole are acceptable. For example, the auditor may consider that it is appropriate to set a lower or greater materiality level for different types of performance measures reported.

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<sup>47</sup> PBE IPSAS 1 *Presentation of Financial Statements*, paragraphs 46A.1–2 and Explanatory Guide A7: *Materiality for Public Benefit Entities*

- (c) How the information is presented.
- (d) The relative volatility of reported service performance information. For example, if service performance information varies significantly from period to period.

A39. In determining materiality levels and factors, the auditor exercises professional judgement by considering qualitative and quantitative factors.

A40. Qualitative factors may include:

- (a) The number of persons or entities affected.
- (b) The importance of the activity to achieving the entity's service performance objectives.
- (c) The extent of interest shown in particular aspects of service performance by, for example, the legislature, funders, the media or the public.
- (d) The type of service performance criteria adopted.
- (e) The interaction between, and relative importance of, various components of the service performance information when it is made up of multiple components, such as information that includes numerous performance measures.
- (f) The economic, social, political and environmental effect of a project or an entity's work.
- (g) The wording chosen with respect to service performance information that is expressed in narrative form.
- (h) The characteristics of the presentation adopted for the service performance information.
- (i) The nature of the misstatement.
- (j) Whether a misstatement is the result of an intentional act or is unintentional.
- (k) Whether a misstatement is significant having regard to the auditor's understanding of known previous communications to users.
- (l) Whether a particular aspect of the service performance information is significant with regard to the nature, visibility and sensitivity of the information.

A41. Materiality factors for qualitative statements may include:

- (a) Omissions of fact – could omissions result in misleading the user?
- (b) Misstatements of fact – could a misstatement result in misleading the user?
- (c) Misrepresentation of trend – does the service performance information make claims that do not represent the facts available?
- (d) Bias – does the service performance information focus unduly on positive aspects of performance, or omit negative aspects?
- (e) Unsubstantiated claims.

A42. For historical financial information extracted from the audited financial statements, the engagement team may determine that the materiality level or levels used in the audit of the financial statements are acceptable for the purposes of the service performance information.



## **Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement (Ref: Para. 30)**

A43. The process used to adopt the entity's service performance criteria may affect the work that the auditor carries out to assess whether the service performance criteria are suitable. Use of criteria specified by external benchmarks or industry guidance is preferable to internally generated criteria as external guidance reduces the risk of bias. Transparency about how the entity identified its service performance criteria and the entity's consideration of materiality may also affect the work that the auditor carries out.

A44. Factors that the auditor may consider in obtaining an understanding of the entity's service performance criteria include:

- The entity's approach to formulating its strategy, its strategic planning processes and links to operations;
- Whether there are factors that are outside the control of the entity or there are long time frames that are required to make assessments of the entity's service performance.
- The source and process for adopting the entity's service performance criteria, and whether the source or rationale for the selection and adoption is transparent so that users can determine how they were established.
- How much discretion the entity has over the selection and aggregation of service performance information. The more discretion the entity has over the selection and aggregation, the more evidence the auditor will need to conclude on the suitability of the criteria adopted. For example:
  - The entity's service performance criteria may be embodied in law or regulation specific to the entity, industry or sector in which the entity operates and, in particular, with laws and regulations that specify the form and content of service performance information or which describe the entity's accountability. In the absence of indications to the contrary, such criteria are presumed to be suitable.
  - The entity may use 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, for example, a local authority's Long-Term Plan.
  - The entity may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders (e.g., in an entity's Long-Term Plan or in funding contracts with key funders) or in the entity's statement of intent or charter and recent plans and strategies.
  - Guidelines developed and issued collectively by a group or published in journals or results of benchmarking studies, for example, central agencies may provide guidance or establish requirements for the preparation of service performance information.
- Results of surveys or other evidence of stakeholder consultation, providing information about who the intended users are and what information they may find helpful to assess the performance of the entity.
- Other external requirements or agreements with external parties that influence the

entity's service performance accountability.

- Other contextual information, including strategic and operational objectives, that provides information about the entity's overall purpose, including what the entity holds itself to be accountable for and its service performance priorities. For example, an entity's constitution, trust deed, mission statement, recent plans and strategies.
- How the entity assesses its service performance for the purposes of internal decision making.
- Whether the entity's service performance criteria have been validated through research conducted to be well correlated with what they are intended to measure or describe.
- Changes from the prior period in the nature or extent of operations.
- Whether it is appropriate to report on information that falls outside of the boundary of the reporting entity.

A45. Service performance information reported because it is readily quantifiable may not be suitable and may not meet the principles of the applicable financial reporting framework. For example, the entity may select goods or services to report on the basis that the selected good or service is readily measurable. However, it may not be the most relevant information to enable the user to understand or assess the service performance of the entity during the year.

A46. Communication with those charged with governance in a timely manner may enable improvements to be made to the service performance information.

A47. Factors the auditor may consider in determining whether to perform further audit procedures include:

- (a) The pervasiveness of the matter;
- (b) The materiality of the matter;
- (c) Whether the auditor's concern is with respect to the presentation of the information only;
- (d) Whether further audit procedures will enable the auditor to express an opinion on some of the service performance information.

*Obtaining an Understanding of the Entity's Internal Control (Ref: Para. 37)*

A48. Control activities that may be relevant to the audit of the financial statements include policies and procedures that pertain to internal management performance reviews,<sup>48</sup> including reviews and analyses of actual performance versus budgets and relating different sets of data – operating or financial – to one another. An understanding of the control activities that pertain to performance reviews will be especially relevant to the audit of the general purpose financial report and may assist the auditor to audit the service performance information concurrently with the financial information.

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<sup>48</sup> ISA (NZ) 315 (Revised), Appendix 1, paragraph 9

*Identifying and Assessing Risks of Material Misstatement (Ref: Para. 38)*

Assertions about service performance and related disclosures

- A49. Assertions used by the auditor in considering the different types of potential misstatements of service performance information that may occur may fall into the following categories:
- (a) Occurrence – service performance that has been reported has occurred.
  - (b) Attributable to the entity – the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with.
  - (c) Completeness – all significant service performance that should have been reported has been included in the service performance information.
  - (d) Accuracy – service performance has been reported, measured and described appropriately and is consistent with financial statement information.
  - (e) Cut-off – the service performance has been reported in the correct period.
  - (f) Presentation – service performance is appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable.
  - (g) Consistency – service performance information is consistent with the prior period, or changes are justified and are appropriately disclosed.

**The Auditor's Responses to Assessed Risks (Ref: Para. 40–41)**

A50. Procedures that may be performed include:

- (a) Testing and evaluating the systems, processes and controls that capture, record, analyse and monitor the service performance information;
- (b) Performing analytical review procedures;
- (c) Performing other substantive or re-performance tests.

A51. The quality of the systems used to record and control results, and the nature and quality of evidence available, may have an effect on the mix of procedures used. For instance, a weak recording or control system may force the auditor to use primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

A52. In some instances, there may not be control activities that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform audit procedures that are primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

**Audit Evidence (Ref: Para. 46)**

A53. Making correlations with audit evidence obtained in the audit of the financial statements, as far as possible, maximises the effectiveness of the audit of the general purpose financial report.

A54. The mix of procedures to be performed may vary compared with the mix used in regard to the financial information but does not alter the need to obtain sufficient appropriate audit

evidence.

### **Written Representations (Ref: Para. 51)**

A55. The representation letter for the audit of the general purpose financial report includes references to the service performance information. An example of an illustrative representation letter for the audit of the general purpose financial report that includes service performance information is set out in the Appendix of ISA (NZ) 580.

### **Using the Work of an Auditor's Expert (Ref: Para. 54)**

A56. Expertise in a field other than accounting or auditing may be necessary as a result of information included in the service performance information. Expertise in a field other than accounting or auditing may include expertise in relation to such matters as:

- The measurement of complex performance measures;
- Assertions made about the entity's performance, for example, when reporting on the difference that the entity has made;
- Conformity assessments, ecolabelling and certification programmes.

### **Using the Work of Another Practitioner (Ref: Para. 55)**

A57. The service performance information may include information upon which another practitioner may have expressed an opinion. The auditor, in concluding on the general purpose financial report, may decide to use the evidence on which that other practitioner's opinion is based to provide evidence regarding the service performance information included in the general purpose financial report. The work of another practitioner may be used in relation to service performance information that falls outside the boundary of the reporting entity. Such practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another auditor may include:

- (a) Whether the auditor understands and complies with the requirements of Professional and Ethical Standard 1 (Revised).
- (b) The other practitioner's professional competence.
- (c) The extent of the engagement teams' involvement in the work of the other practitioner.

### **Forming an Opinion and Reporting (Ref: Para. 56–59)**

A58. The auditor's conclusion on the service performance information covers both:

- (a) Whether the entity's service performance criteria are suitable and available to intended users; and
- (b) Verification of information prepared when the entity's service performance criteria have been applied.

A59. Those charged with governance will make a number of judgements about the selection, aggregation and presentation of information reported. In considering the qualitative characteristics of the entity's service performance criteria, the auditor may become aware of

bias. The auditor may conclude that the cumulative effect of the lack of neutrality, together with the effect of uncorrected misstatements causes the service performance information to be materially misstated.

A60. The preparation of the service performance information by the entity, requires the inclusion of an adequate description of the entity's service performance criteria. The disclosure of the critical judgements made in selecting and aggregating service performance information is particularly important when there are significant differences between various criteria regarding how particular matters may be treated in the service performance information. For example, what service performance criteria have been adopted by the entity to measure or describe the entity's service performance and the basis for selecting which information and performance measures to include.

### **Report Content (Ref: Para. 60–62)**

A61. The auditor's report on the general purpose financial report includes references to the service performance information. An illustrative report that includes references to the service performance information is set out in the Appendix of ISA (NZ) 700 (Revised).

A62. The elements required to be included in an auditor's report by ISA (NZ) 700 are those elements to be included in a short-form report. This NZ AS requires the auditor's report to include at least all elements required by ISA (NZ) 700 (Revised) and this NZ AS. Inclusion of these elements will result in a short form auditor's report. However, this NZ AS allows for flexibility and an auditor may include additional information, as described in paragraphs A64- A65, resulting in a long-form report.

A63. The auditor's report identifies the entity's service performance criteria so that the intended users can understand the basis for the auditor's opinion. The auditor's report may refer to the entity's service performance criteria (e.g., as [ABC entity's service performance criteria on page xx of the report or within the service performance information]) if the criteria are included and described in the service performance information or identify the criteria where otherwise available from a readily accessible source (e.g., as [section xxx of applicable legislation or name of externally developed and well-established performance framework]).

A64. The auditor's report may describe additional details relevant to the audit of the service performance information that are intended to meet the information needs of users but not to affect the auditor's conclusion. This information may be required by legislation or agreed in the terms of the engagement to meet the needs of users. If the report includes other information it is a long-form report as the information is additional to the basic elements required in paragraph 61. Other information should not be worded in a manner that it may be regarded as a modification of the auditor's opinion. The auditor's report may describe, for example:

- The underlying facts and information about the entity's service performance criteria (e.g., the maturity of the entity's service performance criteria compared to others in the industry).
- The source of the entity's service performance criteria, and whether they are established criteria (e.g., established in legislation or externally established performance frameworks), and if not, a description of why the entity's service performance criteria are considered suitable.

- Any significant interpretations made in selecting or applying the entity's service performance criteria in the circumstances and why the auditor considers that the entity's service performance criteria are suitable.
- Whether there have been any changes in the entity's service performance criteria or in the measurement methods used.
- Findings or recommendations related to the evaluation of the suitability of the entity's service performance criteria.
- Any other matters the auditor considers necessary to meet the needs of users.

A65. The auditor is encouraged to report their findings or recommendations with respect to the entity's service performance criteria where the auditor considers the information would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting. Reporting of findings and recommendations may promote and also highlight to the user improvements in reporting over time.

### **Modifications to the Opinion in the Independent Auditor's Report (Ref: Para. 65)**

A66. A misstatement of the service performance information may arise in relation to:

- (a) The suitability of the entity's service performance criteria;
- (b) The application of the service performance criteria; or
- (c) Inadequate disclosure of critical judgements made, where applicable; or
- (d) Incomplete disclosures that do not include all disclosures required by the applicable financial reporting framework or do not achieve fair presentation of the service performance information.

A67. In relation to the suitability of the entity's service performance criteria, material misstatements of the service performance information may arise, for example, when:

- (a) The entity's service performance criteria are not consistent with the applicable financial reporting framework.
- (b) The entity has not appropriately applied the qualitative characteristics, in accordance with the applicable financial reporting framework and therefore the service performance information does not enable a meaningful assessment of performance to be made by intended users.

A68. The auditor may determine that a material misstatement exists in relation to the suitability of the service performance criteria:

- (a) When, in the auditor's professional judgement, the service performance criteria used are likely to mislead the intended users. A qualified opinion or adverse opinion would be appropriate in the circumstances depending on how material and pervasive the matter is.
- (b) In other cases, a qualified opinion or a disclaimer of opinion would be appropriate depending on, in the auditor's professional judgement, how material and pervasive the matter is.

A69. In relation to the application of the entity's service performance criteria, material

misstatements of the service performance information may arise:

- (a) Due to a misapplication of the entity's service performance criteria (e.g., an unintentional error in application).
- (b) When the entity's service performance criteria are not applied consistently to the service performance, or not applied consistently between periods.

A70. In relation to the appropriateness or adequacy of disclosures in the financial report, material misstatements may arise when:

- (a) The financial report does not provide all disclosures required by the applicable financial reporting framework.
- (b) The financial report does not provide all disclosures necessary to achieve fair presentation of the service performance information.

A71. Appendix 4 includes illustrative auditor's reports with a qualified, adverse or disclaimer of opinion with respect to the service performance information.

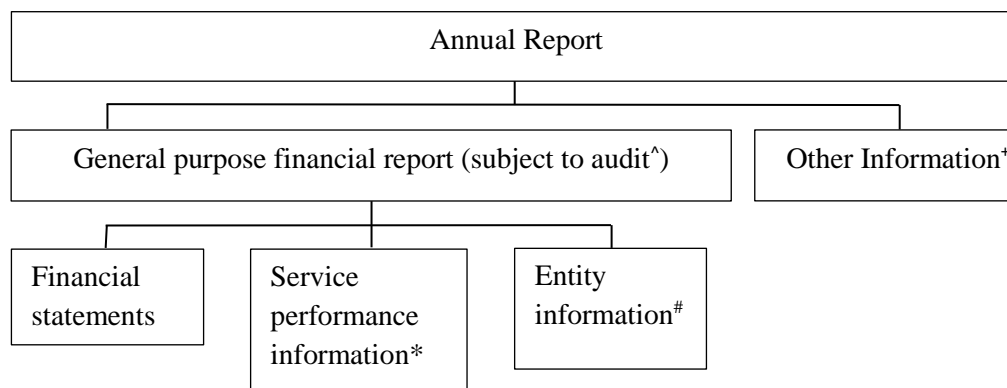
A72. In many instances, a modification with respect to the service performance information will have no impact on the opinion on the financial statements.

#### **Other Information (Ref: Para. 73)**

A73. Appendix 1 illustrates what constitutes other information for the purposes of this NZ AS.

A74. Other information, whether financial or non-financial information (other than the financial statement information and service performance information) may be included in an annual report. The auditor's opinion does not cover the other information. The auditor's responsibilities regarding other information within the annual report, but located outside of the general purpose financial report as defined in this NZ AS, is determined by ISA (NZ) 720 (Revised) and by this NZ AS.

## What Constitutes the General Purpose Financial Report



- <sup>^</sup> Some entities are required by law or regulation to have the general purpose financial report audited or reviewed. Other entities may elect to include service performance information within the scope of the audit. Where the service performance information is not included within the scope of the audit, this NZ AS does not apply.
- <sup>\*</sup> Service performance information may be included in the general purpose financial report by cross-reference where the applicable financial reporting framework permits disclosures to be cross referenced.
- <sup>#</sup> Where entity information is required to be included in the general purpose financial report by the applicable financial reporting framework.
- <sup>+</sup> Other information may include forward looking information, other historical information and management discussion and analysis. ISA (NZ) 720 (Revised) addresses the auditor’s responsibilities with respect to other information. ISA (NZ) 720 (Revised) applies to the service performance information when service performance information is not included within the scope of the audit.

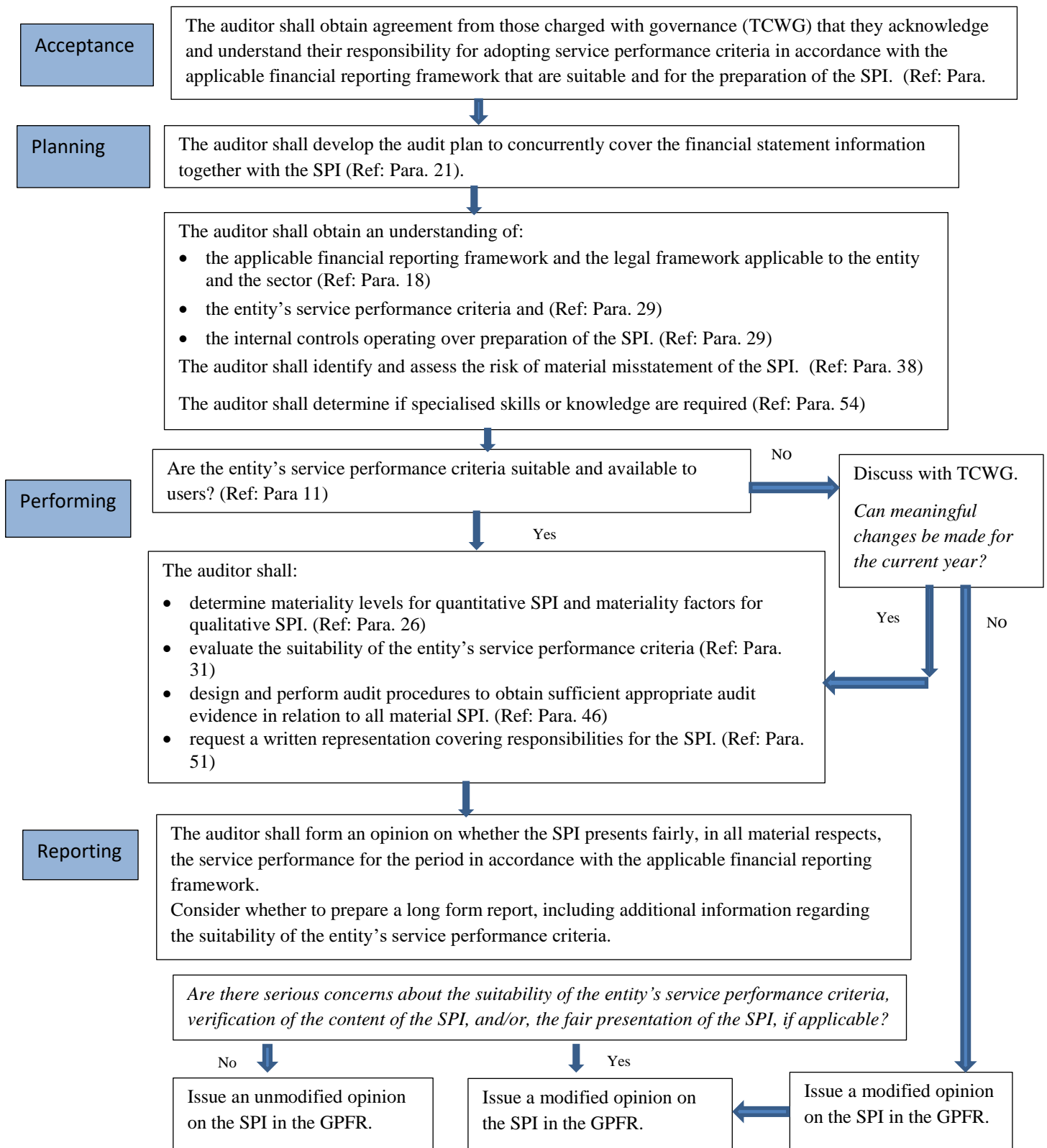


**Examples of an Entity’s Service Performance Criteria**

<b>Service Performance Criteria for the engagement</b>			
<b>Tier reporting under</b>	<b>Financial reporting framework establishes:</b>	<b>How the entity adopts its basis for preparation</b>	<b>The auditor evaluates the suitability of the entity’s service performance criteria</b>
	<ul style="list-style-type: none"> <li>• The objective of service performance reporting</li> <li>• Reporting principles/ qualitative characteristics</li> <li>• Elements of service performance information to report</li> <li>• Flexibility for recognition, measurement, aggregation and presentation</li> </ul>	<p>External requirements or judgement exercised by the entity to determine the basis by which service performance may be assessed:</p> <ul style="list-style-type: none"> <li>• Application of materiality</li> <li>• What goods and services to report, methodologies for performance measures and/or descriptions appropriate to the circumstances</li> <li>• Presentation method</li> </ul>	<p>Apply professional judgement to evaluate:</p> <ul style="list-style-type: none"> <li>• Relevance</li> <li>• Completeness</li> <li>• Reliability</li> <li>• Neutrality</li> <li>• Understandability</li> </ul>
Tier 1 public sector entity	<ul style="list-style-type: none"> <li>• Why the entity exists, what it intends to achieve in broad terms, and how it goes about this</li> <li>• What the entity has done during the reporting period in working towards its broader objectives using appropriate and meaningful performance measures and/or descriptions</li> </ul>	<p>For example, in the context of a district health board:</p> <p>Health targets set by the Ministry of Health</p> <p>Increase life expectancy and quality of life</p> <p>% increase in immunisation rates</p> <ul style="list-style-type: none"> <li>- Number of vaccinations given</li> <li>- Description of initiatives undertaken to assist medical practitioners talk about immunisation</li> </ul>	<p>The auditor evaluates whether the entity is reporting against the performance framework previously agreed with the Minister of Health</p>
Tier 3 not-for-profit	<ul style="list-style-type: none"> <li>• Describe the outcomes</li> <li>• Describe and quantify to the extent practicable the outputs delivered for the current period</li> </ul>	<p>For example, in the context of a Parent Network registered charity:</p> <ul style="list-style-type: none"> <li>- Empower informed decisions</li> <li>- Number of courses and average number of participants</li> </ul>	<p>The auditor evaluates whether the entity is reporting against its mission statement and targets established by funders</p>

## Appendix 3

### Flowchart of the Audit of Service Performance Information (SPI) included in the General Purpose Financial Report (GPFR)



## **Appendix 4**

(Ref: Para. A71)

### **Illustrations of Auditor's Reports with Modifications to the Opinion with Respect to the Service Performance Information**

- Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information.
- Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information.
- Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information.
- Illustration 4: An auditor's report containing a qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the loss of records about multiple elements of the general purpose financial report.

Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information

## INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

### Opinions

We have audited the *[financial report]* of ABC [entity], which comprise the *[financial statements and service performance information]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive revenue and expense, 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.

#### *Opinion on the Financial Statements*

In our opinion, the accompanying financial report *on pages x to xx* presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

#### *Qualified Opinion on the Service Performance Information*

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying financial report presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] *[on pages x to xx]* for the year ended December 31, 20X1 in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

### Basis for Qualified Opinion on the Service Performance Information

[As reported in the service performance information on page xx, the entity's service performance criteria include [list performance measures and/or descriptions reported] to report its service performance. The entity has reported that it has *[describe improvements reported or description of the difference that the entity has made]*. The entity has not been able to provide evidence of its role in those particular improvements that is verifiable and therefore should not have reported this improvement.]

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX *The Audit of Service Performance Information* and the ISAs (NZ). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

**Other Information [or another title if appropriate such as “Information other than the financial report and auditor’s report thereon”]**

*[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].*

**Responsibilities of Those Charged with Governance for the Financial Report**

*[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].*

**Auditor’s Responsibilities for the Audit of the Financial Report**

*[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]*

*[Auditor Address]*

*[Date]*

Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information

**INDEPENDENT AUDITOR'S REPORT**

To [Appropriate Addressee]

**Opinions**

We have audited the [*financial report*] of ABC [entity], which comprise the [*financial statements and service performance information*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive revenue and expense, 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.

*Opinion on the Financial Statements*

In our opinion, the accompanying financial report *on pages x to xx* presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

*Adverse Opinion on the Service Performance Information*

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on the Service Performance Information* section of our report the accompanying financial report does not present fairly (or *does not give a true and fair view of*) the service performance of the [entity] [*on pages x to xx*] for the year ended December 31, 20X1 in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

**Basis for Adverse Opinion on the Service Performance Information**

[As reported in the service performance information on pages ..., the entity's service performance criteria include [list appropriate goods and services, performance measures and/or descriptions reported] to report its service performance. We do not consider that these criteria will enable a meaningful assessment of the service performance of the entity for the year ended December 31, 20X1 to be made. Had the entity identified more meaningful service performance criteria, the service performance information would have been materially affected, reporting goods and services including xxx and linking to its responsibility for yyyy.]

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX *The Audit of Service Performance Information* and the ISAs (NZ). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

**Other Information [or another title if appropriate such as “Information other than the financial report and auditor’s report thereon”]**

*[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 7 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].*

**Responsibilities of Those Charged with Governance for the Financial Report**

*[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].*

**Auditor’s Responsibilities for the Audit of the Financial Report**

*[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]*

*[Auditor Address]*

*[Date]*

Illustration 3: An auditor’s report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor’s inability to obtain sufficient appropriate audit evidence about a single element of the service performance information

**INDEPENDENT AUDITOR’S REPORT**

To [Appropriate Addressee]

**Opinions**

We have audited the *[financial report]* of ABC [entity], which comprise the *[financial statements and service performance information]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive revenue and expense, 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.

*Opinion on the Financial Statements*

In our opinion, the accompanying financial report *on pages x to xx* presents fairly, in all material respects, (or *gives a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

*Qualified Opinion on the Service Performance Information*

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying financial report presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] *[on pages x to xx]* for the year ended December 31, 20X1 in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

**Basis for Qualified Opinion on the Service Performance Information**

[Some significant performance measures of the entity, rely on information from third parties, such as *(give examples)*. The entity’s control over much of this information is limited, and there are no practical audit procedures to determine the effect of this limited control. For example, *[describe performance measure and explain where information comes from that we are unable to independently test.]*]

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX *The Audit of Service Performance Information* and the ISAs (NZ). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].



**Other Information [or another title if appropriate such as “Information other than the financial report and auditor’s report thereon”]**

*[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]*

**Responsibilities of Those Charged with Governance for the Financial Report**

*[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].*

**Auditor’s Responsibilities for the Audit of the Financial Report**

*[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]*

*[Auditor Address]*

*[Date]*

Illustration 4: Qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements

## INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

### Qualified Opinion on the General Purpose Financial Report

We have audited the [*financial report*] of ABC [entity], which comprise the [*financial statements on pages x to xx and service performance information on pages x to xx*]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive revenue and expense, 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.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report the accompanying financial report presents fairly, in all material respects (or *gives a true and fair view of*):

- the financial position of the [entity] as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended; and
- the service performance for the year then ended

in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

### Basis for Qualified Opinion

[As outlined on page xx of the financial report, [entity] has not applied the requirements of the Public Benefit Entity Standards to its grant expenditure. We have been unable to obtain sufficient audit 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 expenses; 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.]

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX *The Audit of Service Performance Information* and the ISAs (NZ). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

**Other Information [or another title if appropriate such as “Information other than the financial report and auditor’s report thereon”]**

*[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].*

**Responsibilities of Those Charged with Governance for the Financial Report**

*[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].*

**Auditor’s Responsibilities for the Audit of the Financial Report**

*[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].*

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]*

*[Auditor Address]*

*[Date]*

Illustration 5: Disclaimer of opinion due to the loss of records about multiple elements of the general purpose financial report

**INDEPENDENT AUDITOR’S REPORT**

To [Appropriate Addressee]

**Disclaimer of Opinion**

We were engaged to audit the *[financial report]* of ABC [entity], which comprise the *[financial statements on pages x to xx and service performance information on pages x to xx]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive revenue and expense, 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.

We do not express an opinion on the accompanying financial report of the [entity]. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this financial report.

**Basis for Disclaimer of Opinion**

As stated in note .....on page..... of the financial report, a fire at the [entity]’s office destroyed many of the accounting records. The financial report consequently includes a number of material amounts based on estimates. For this reason, we have been unable to confirm or verify [describe the balances affected, for example, accounts receivable, accounts payable and within the service performance information describe the goods and services reported]. As a result of this matter, we were unable to determine whether any adjustments might have been found to be necessary in respect of recorded or unrecorded amounts, and the elements making up the statement of comprehensive revenue and expense, statement of changes in net assets/equity, statement of cash flows and the service performance information.

**Other Information [or another title if appropriate such as “Information other than the financial report and auditor’s report thereon”]**

*[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]*

**Responsibilities of Those Charged with Governance for the Financial Report**

*[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].*

**Auditor’s Responsibilities for the Audit of the Financial Report**

Our responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance

information, in accordance with New Zealand Auditing Standard XX *The Audit of Service Performance Information* and the ISAs (NZ). However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this financial report.

We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interest in, the [entity].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

# Conforming Amendments to Other Standards

*New text is underlined.*

## ISA (NZ) 210 Agreeing the Terms of Audit Engagement

**[NZ] Appendix 1A**

### **Example of an Audit Engagement Letter for an Audit of the General Purpose Financial Report Including Service Performance Information**<sup>49</sup>

The following is an example of an audit engagement letter for an audit of the general purpose financial report, including service performance information prepared in accordance with Public Benefit Standards issued by the New Zealand Accounting Standards Board. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISAs (NZ) and NZ AS XX. It will need to be varied according to individual requirements and circumstances.

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To the Chairperson:<sup>50</sup>

[The objective and scope of the audit]

You have requested that we audit the financial report of ABC [Entity], which comprise the:

- financial statements, including the statement of financial position as at December 31, 20X1, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies; and
- service performance information.

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and New Zealand Auditing Standard (NZ AS) XX *The Audit of Service Performance Information* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this financial report.

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<sup>49</sup> The auditor is required to apply the ISAs (NZ) and NZ AS XX where the auditor is engaged to audit the general purpose financial report, including the service performance information.

<sup>50</sup> The addressees and references in the letter would be those appropriate in the circumstances of the engagement. It is important to refer to the appropriate persons – refer to ISA (NZ) 210 paragraph A22.

[The responsibilities of the auditor]

We will conduct our audit of the financial statements in accordance with ISAs (NZ) and the audit of the service performance information in accordance with NZ AS XX and the ISAs (NZ). Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial report that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represent the underlying transactions and events in a manner that achieves fair presentation.

Service performance information includes non-financial information that is both quantitative and qualitative in nature. The preparation of the service performance information requires the use of judgement. The entity adopts service performance criteria specific to its circumstances, using the principles established in the applicable financial reporting framework. As part of an audit in accordance with New Zealand Auditing Standard XX *The Audit of Service Performance Information* (NZ AS XX), we evaluate:

- The suitability of [the entity's] service performance criteria as the basis for the preparation of the service performance information of the entity;
- The overall presentation, structure and content of the service performance information and whether the service performance information represents the underlying service performance in accordance with the applicable financial reporting framework, including its fair presentation;
- The consistency of the information reported in the financial statements and the service performance information.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (NZ) and NZ AS XX.

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

Our audit will be conducted on the basis that [those charged with governance] acknowledge and understand that they have responsibility on behalf of the entity:

- To adopt service performance criteria in accordance with the applicable financial reporting framework that are suitable in the context of the entity and identify whether they were specified by law, regulation, contract, another party (e.g., a user group) or developed by the entity;
- For the preparation and fair presentation of the financial report in accordance with [the entity's] service performance criteria and [Public Benefit Entity Standards];
- For such internal control as [they] determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error; and
- To provide us with:
  - Access to all information of which [management and those charged with governance] are aware that is relevant to the preparation of the financial report such as records, documentation and other matters;
  - Additional information that we may request from [management or the directors] for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[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 auditor's report.]

The form and content of our report may need to be amended in the light of our audit findings [and may be in long form, including why we consider that the entity's service performance criteria are suitable, findings or recommendations].

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial report including our respective responsibilities.

[Governing body]

Acknowledged and agreed on behalf of the [Governing body] by

(signed)

.....

Name and Title

Date

## ISA (NZ) 580 Written Representations

[NZ]Appendix 2A

### Illustrative Representation Letter (including service performance information)

#### Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other ISAs (NZ) and New Zealand Auditing Standard XX. It is assumed in this illustration that the applicable financial reporting framework is Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board, 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 Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial report of ABC Entity for the year ended December 31, 20XX which comprise the *financial statements and service performance information*<sup>51</sup> for the purpose of expressing an opinion as to whether the financial report complies with Public Benefit Entity (PBE) Standards and gives a true and fair view of the financial position of ABC [entity] as at December 31, 20XX and of the results of its operations and its cash flows for the year then ended and the service performance information for the year then ended.

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*

- We have adopted service performance criteria<sup>52</sup> in accordance with PBE Standards that are suitable in the context of [the entity].
- We have fulfilled our responsibilities on behalf of [the entity], as set out in the terms of the audit engagement dated [insert date], for the preparation, and fair presentation of the financial statements and service performance information in accordance with [*the entity's service performance criteria*] and PBE Standards issued by the New Zealand Accounting Standards Board.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (ISA (NZ) 540)
- Related party relationships and transactions have been appropriately accounted for and

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<sup>51</sup> Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

<sup>52</sup> Identify the entity's service performance criteria or describe the source (e.g., if described in legislation or in an established performance framework).

disclosed in the financial statements in accordance with PBE Standards. (ISA (NZ) 550)

- All events subsequent to the date of the financial statements which require adjustment or disclosure have been adjusted or disclosed. (ISA (NZ) 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial report as a whole. A list of the uncorrected misstatements is attached to the representation letter. (ISA (NZ) 450)
- [Any other matters that the auditor may consider appropriate (see paragraph A10 of this ISA (NZ)).]

#### *Information Provided*

- We have provided you with<sup>53</sup>:
  - Access to all information of which we are aware that is relevant to the preparation of the financial report such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial report may be materially misstated as a result of fraud. (ISA (NZ) 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial report. (ISA (NZ) 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial report communicated by employees, former employees, analysts, regulators or others. (ISA (NZ) 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing a financial report. (ISA (NZ) 250)
- 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. (ISA (NZ) 550)
- We will provide the final version of the documents determined to comprise the annual report

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<sup>53</sup> If the auditor has included other matters relating to the responsibilities of those charged with governance in the audit engagement letter in accordance with ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from those charged with governance.

to the auditor when available, and prior to its issuance by the entity.<sup>54</sup> (ISA (NZ) 720 (Revised))

- [Any other matters that the auditor may consider necessary (see paragraph A11 of this ISA (NZ)).]

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Governing body member

Governing body member

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<sup>54</sup> This is only required when the other information is not available until after the date of the auditor's report.

# ISA (NZ) 700 (Revised) Forming an Opinion and Reporting on Financial Statements

## Appendix

### Illustrations of Independent Auditor's Reports of Financial Statements

- [NZ] Illustration 1: An auditor's report on financial statements of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a fair presentation framework (e.g., NZ IFRS).

...

- [NZ] Illustration 3A: An auditor's report on the general purpose financial report, including financial statements and service performance information of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a fair presentation framework (e.g., Public Benefit Entity Standards) (where reference is made to material that is located on a website of the External Reporting Board).

**[NZ] Illustration 3A– Auditor’s Report on the Financial Report of a Public Benefit Entity that is not a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (e.g., Public Benefit Entity Standards)**

**For purposes of this illustrative auditor’s report, the following circumstances are assumed:**

- **Audit of a financial report comprising of a complete set of financial statements and service performance information of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework<sup>55</sup>. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).**
- **The financial report is prepared by management of the entity in accordance with Public Benefit Entity Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial report in ISA (NZ) 210.**
- **The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.**
- **Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.**
- **The auditor has no other reporting responsibilities required under local law.**

**INDEPENDENT AUDITOR’S REPORT**

To Appropriate Addressee

**Opinion**

We have audited the [financial report] of ABC [entity], which comprise the [financial statements on pages x to xx and service performance information on pages x to xx]. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive revenue and expense, 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.

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<sup>55</sup> The financial report may be referred to as a performance report and include entity information, according to what financial reporting requirements have been applied to prepare the general purpose financial report.

In our opinion:

- The accompanying financial report presents fairly, in all material respects, (or gives a true and fair view of):
  - the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended; and
  - the service performance for the year then ended

in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

[For a long form report, include a separate section, under an appropriate heading, for example:

- Description of the entity’s service performance criteria, including the source of the criteria.
- Why the auditor considers that the entity’s service performance criteria are suitable.
- Findings or recommendations for improvements to the entity’s service performance criteria.
- Any other matters the auditor considers necessary to meet the needs of users.]

### **Basis for Opinion**

We conducted our audit of the financial statements in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information, in accordance with New Zealand Auditing Standard XX *The Audit of Service Performance Information* and the ISAs (NZ). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, the [entity].

### **Other Information [or another title if appropriate such as “Information other than the financial report and auditor’s report thereon”]**

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

### **Responsibilities of Those Charged with Governance for the Financial Report**

Those charged with governance are responsible on behalf of the [entity] for:

- (a) adopting service performance criteria in accordance with Public Benefit Entity Standards that are suitable in the context of [the entity];
- (b) the preparation and fair presentation of the financial statements and service performance information in accordance with [identify the entity’s service performance criteria e.g., as [the entity’s service performance criteria on page xx of the report or within the service performance information] or [name of externally developed performance framework]] and

Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board, and

- (c) for such internal control as those charged with governance determine is necessary to enable the preparation of the financial statements and service performance information that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, those charged with governance are responsible for assessing the [entity's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the [entity] or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this financial report.

A further description of the auditor's responsibilities for the audit of the financial report is located at the XRB's website at <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

Paragraph 41(b) of ISA (NZ) 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

As part of an audit in accordance with ISAs (NZ) and NZ AS XX, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Service performance information includes non-financial information that is both quantitative and qualitative in nature. The preparation of the service performance information requires the use of judgement. The entity develops its own service performance criteria, specific to its circumstances, using the principles established in the Public Benefit Entity Standards. As part of an audit in accordance with New Zealand Auditing Standard (NZ AS XX), we evaluate:

- The suitability of [the entity's service performance criteria] as the basis for the preparation of the service performance information of the entity;
- The overall presentation, structure and content of the service performance information and whether the service performance information represents the underlying service performance in accordance with Public Benefit Entity Standards in a manner that achieves fair presentation;
- The consistency of the information reported in the financial statements and the service performance information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

## **Conforming amendments to XRB Au1 *Application of Auditing and Assurance Standards***

Appendix 2 lists the International Standards on Auditing (New Zealand) to be applied in conducting audits of historical financial information.

Appendix 2A will be added as follows:

### **Appendix 2A**

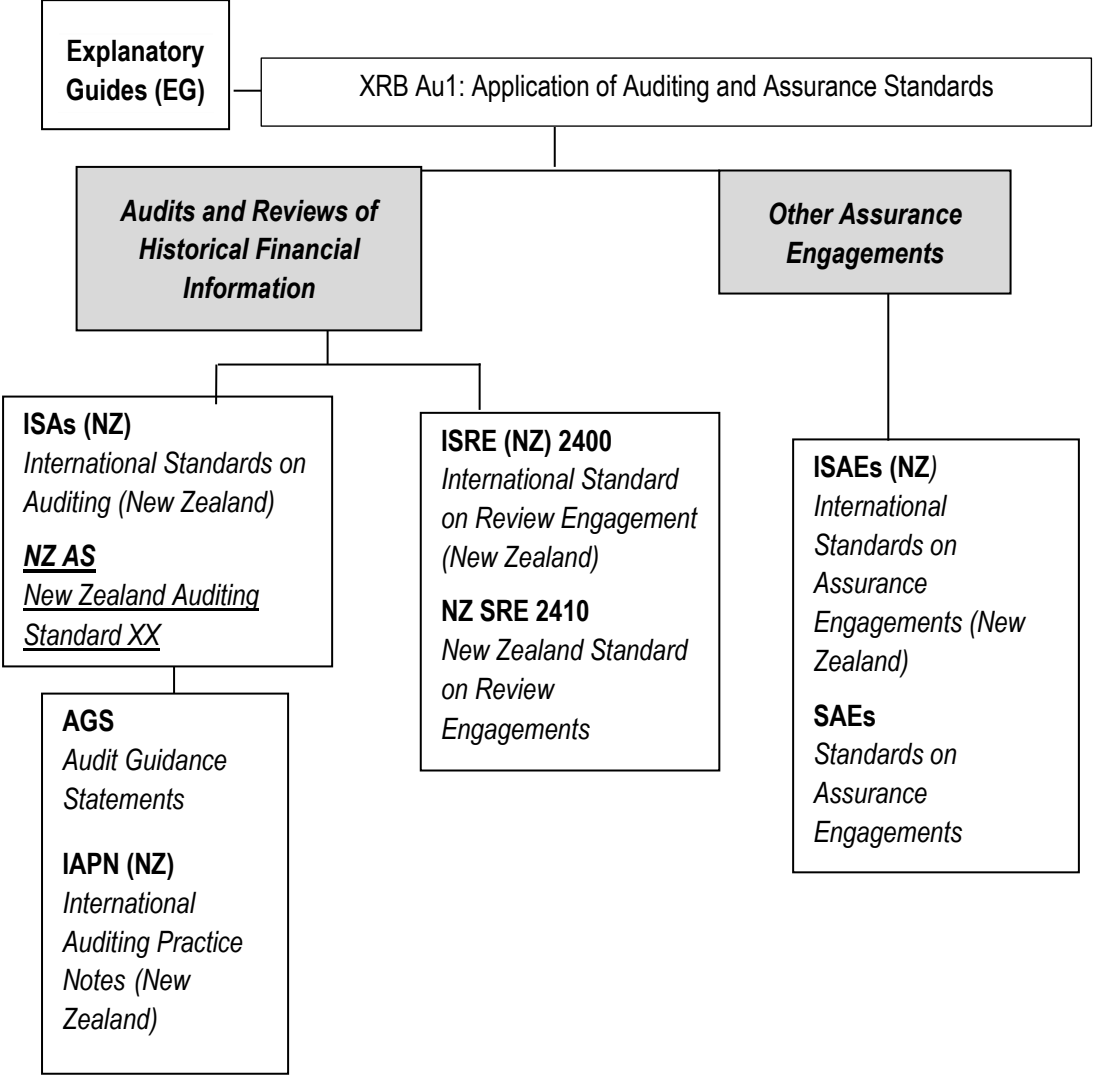
#### **Auditing Standards (New Zealand)**

*This appendix is an integral part of the Standard*

This appendix lists the Auditing Standards (New Zealand) to be applied in conjunction with the International Standards on Auditing (New Zealand) in conducting an audit of general purpose financial reports which comprise the financial statements and service performance information.

NZ AS XX                      The Audit of Service Performance Information

Appendix 6 Overview of Auditing and Assurance Standards of the XRB is to be amended as follows:



## **ACCOMPANYING ATTACHMENT: CONFORMITY TO INTERNATIONAL AND AUSTRALIAN STANDARDS ON AUDITING**

This conformity statement accompanies but is not part of NZ AS XX.

### **Conformity to International Standards on Auditing**

There is no equivalent International Standard on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

### **Comparison with Australian Auditing Standards**

There is no equivalent Australian Auditing Standard, issued by the Australian Auditing and Assurance Standards Board (AUASB).