

Auditor-General's Auditing Standard 4

The Audit of Performance Reports



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Introduction

Scope of this Standard

1. This Auditor-General's Auditing Standard establishes the Auditor-General's requirements for when an Appointed Auditor is expressing an opinion on a performance report where a public entity is required to, or elects to, prepare performance information and have it audited.
2. Performance reports are normally prepared in conjunction with financial statements and, when presented with other information, where relevant, they constitute a general purpose financial report (see Figure 1 below). The objective of a general purpose financial report is to convey a coherent picture about a public entity's performance and position.

Figure 1 – What constitutes a general purpose financial report

Audited Performance Information (Performance Report)	Audited Financial Information (Financial Statements)	Unaudited Other Information
Audited in keeping with the requirements of the Auditor-General's auditing standards	Audited in keeping with the requirements of the Auditor-General's auditing standards	Not required to be audited, but read in keeping with the requirements or ISA (NZ) 720

3. It is common for performance information to be included in a public entity's general purpose financial report¹ and be subject to audit as part of the annual audit. This set of information is usually intended to satisfy the public entity's statutory, regulatory, or other formal reporting requirements. This information is referred to in this Standard as the "performance report". However, it is not uncommon for public entities to include performance information within a general purpose financial report but outside the "performance report" (that is, additional to the audited set of information specifically intended to satisfy the entity's formal reporting requirements). Performance information can also be located outside the general purpose financial report. Such information can, for example, be included within the general purpose financial report of another public entity or in some other publication and/or published form (for example, a stand-alone performance report or industry sector report in hard copy format or on a website). Performance reports can also be activity based rather than focused on the performance of a single public entity.
4. To give effect to the requirements in this Standard, where performance information is published outside the public entity's performance report, the Appointed Auditor will need to clarify with the public entity whether any of that content is also intended to constitute part of the performance report (that is, the set of information intended to satisfy the public entity's statutory, regulatory, or other formal reporting requirements) and be subject to audit.

¹ A general purpose financial report is often referred to as an annual report.

5. A performance report can take many forms and have different areas of focus. For example, public entities that are designated as public benefit entities (PBEs) for financial reporting purposes are likely to focus on the services provided by the public entity, whereas entities that are not PBEs are likely to have more financially focused performance reporting.
6. Forecast performance information is generally prepared at, or near, the start of the public entity's reporting period(s) (and incorporated into a forecast performance report). Increasingly, public entities are planning for periods beyond a year, and, as a result, performance information can cover multiple years. After the end of the relevant reporting period, performance information is prepared (and is usually incorporated into a performance report). In doing so, the public entity sets out at the start of the reporting period(s) the services and the levels of service it intends to deliver and/or what it is seeking to achieve, and then reports its actual service delivery and/or achievements following the completion of the reporting period. This reporting against the public entity's intentions as set at the start of the reporting period is important for accountability purposes.
7. This Standard requires Appointed Auditors to evaluate and conclude on several aspects of both the forecast performance report and the performance report. Although responsibility for issuing the audit opinion generally only relates to the performance report (normally published within the public entity's annual report), the Appointed Auditor will need to consider whether there is enough context for the performance report and, therefore, whether the public entity's performance is fairly presented. The performance reporting framework presented in the forecast performance report should, among other things, explain what the public entity is intending to achieve and how that will be assessed.
8. In the case of performance information that is included within a public entity's general purpose financial report but is not part of the performance report that is required to be audited, the Appointed Auditor is expected to primarily focus on whether the public entity has complied with its reporting requirements as set out in legislation, in keeping with [AG ISA \(NZ\) 250 \(Revised\): Consideration of laws and regulations](#).

Application

9. Compliance with this Standard is mandatory for Appointed Auditors who carry out annual audits on behalf of the Auditor-General.
10. This Statement applies to audits of performance information that has been prepared for reporting periods beginning on or after 1 April 2023.

Objectives

11. The objectives of the Appointed Auditor are to plan the annual audit in keeping with the requirements of [AG ISA \(NZ\) 300: Planning the annual audit](#) so as to be able to form an opinion on the public entity's performance report, which will include:
- (a) assessing whether the public entity has complied with its performance reporting obligations as set out in applicable legislation;
 - (b) assessing whether the public entity's performance reporting framework provides an adequate basis for reporting the public entity's performance; and
 - (c) auditing the performance report, including evaluating the appropriateness of the public entity's performance information, to form an opinion on whether the performance report:
 - presents fairly, in all material respects, the performance of the public entity for the reporting period; and
 - complies, where applicable,² with generally accepted accounting practice.

Definitions

12. For the purpose of this Auditor-General's Auditing Statement, the defined terms listed below have the following meanings:

Appointed Auditor

means the person or persons appointed by the Auditor-General to carry out the annual audit or other engagement on behalf of the Auditor-General, and who are supported by other members of the audit team. Where an Auditor-General's Statement or Standard expressly intends that a requirement be fulfilled by the Appointed Auditor personally, the requirement will indicate that the Appointed Auditor shall personally satisfy the requirement.

Appropriateness

means the assessment threshold applied by Appointed Auditors when they audit a public entity's performance report. This includes assessing whether the performance information is suitable, given the purpose of the public entity and the nature of its activities, and whether the performance report allows for an informed assessment of the public entity's performance.

Elements of performance

means the inputs, processes, outputs, impacts, and outcomes that may be used to describe and assess the public entity's performance, although a public entity could use different terms to describe its performance elements.

² Several different categories of public entities do not have to prepare performance information that complies with generally accepted accounting practice. Examples include tertiary education institutions, airports, and council-controlled organisations.

Forecast performance report

means the performance report that has been prepared by the public entity, at or near the start of the reporting period(s), and that outlines what the public entity is intending to achieve and how that will be assessed.

Impacts

means the relatively immediate or direct effect on users of the public entity's outputs. Impacts sought provide the rationale for the range of outputs delivered by the public entity.

Inputs

means the resources used by the public entity to produce its outputs.

Management commentary

means the material that generally features in annual reports in one of the following three forms:

- within the performance report as an aid to understanding the report (this is to be encouraged);
- within the performance report as a substitute for performance information (this is generally not acceptable, although it may be justified when new performance measures or baselines are in the process of being established); and
- outside the performance report.

Outcomes

means changes in the state, condition, effects on, or consequences for the community, society, economy, or environment resulting from the existence and operations of the public entity. (The outcomes sought provide the overarching rationale for the range of outputs delivered by the public entity.)

Outputs

means the goods or services that are delivered by the public entity. The term refers only to the goods and services provided to third parties; it excludes goods and services consumed within the reporting entity (such as services provided by legal, research, HR, and IT functions to other functional areas within the same entity, which are often referred to as "internal outputs").^{3,4}

Performance information

means information that conveys a public entity's performance. Such information includes the relevant elements of performance, together with their associated performance measures and targets, where appropriate.

³ The Local Government Act 2002 uses the term "activity" to refer to goods and services. The term "outputs" is used throughout this Standard to refer to goods and services in place of the term "activity" mainly because the term "outputs" is more commonly recognised.

⁴ Output classes are groups of outputs of a similar nature. (They are sometimes referred to as "groups of activities".)

Performance measure

means the specific criteria or means used to measure performance, which is expressed in the context of the dimensions of performance. They may be expressed as, but are not limited to, absolute numbers, percentages, ratios, point estimates, or ranges. They might also be qualitative in nature.⁵

Performance report

means the information subject to audit that records the performance of a public entity against its specified objectives in the form of after-the-event or “ex post” statements for the reporting period. A performance report should include the performance information that a user can use to assess the performance of the public entity. The appropriateness of such information will depend on the purpose of the public entity and the nature of its activities.

Performance reporting framework

means the structure used by the public entity to present its performance information. A performance reporting framework should clearly demonstrate the rationale for, and the relationships among, the contextual information, elements of performance, performance measures, and performance targets. Overall, a performance reporting framework should reflect the public entity’s high-level goals, including what outcomes it is seeking, what impacts it is looking to have, what the public entity is planning to do, and what resources it will apply. This means that the public entity should explain what it is doing and why, including how that will help to contribute to achieving the public entity’s higher-level goals.

Performance targets

means the specific levels or results (usually relating to outputs produced and outcomes achieved) that the public entity aims to achieve. The term “performance targets” encompasses the notion of “performance standards”, which various pronouncements and literature on performance reporting often use to refer to levels of planned performance.

Qualitative characteristics of general purpose financial reporting⁶

means the following attributes of performance information:

- *relevant* because the performance information meets the needs of the users;
- *reliable* because the performance information is free of material error and bias, and is not misleading as it faithfully represents the performance of the public entity;
- *understandable* because the performance information is clearly presented, with additional information supplied as needed to assist in clarification; and

⁵ Performance dimensions are the aspects or properties that may be captured by a particular performance measure. They include, but are not limited to, *quantity* (i.e. how much is provided), *quality* (i.e. how well is it provided), *timeliness* (i.e. when it is provided), *location* (i.e. where it is provided), and *cost* (i.e. how much it costs). Not all of the dimensions will be applicable for each performance measure – for example, location is often not reported when it is self-evident. However, there is a rebuttable presumption that quality will be a dimension that is always measured and reported.

⁶ The qualitative characteristics of performance information are the same as those that apply to financial information.

- *comparable* because the performance information can be compared with the forecast performance information for the relevant reporting period, the performance information presented for other reporting periods, and, where relevant, for other similar reporting entities, which enables users to make an informed assessment of the performance of the public entity.

Users

means those persons who rely on published (that is, external) general purpose reports as their major source of financial and performance information about the entity. For this purpose, users are assumed to have a reasonable knowledge and willingness to study the reported information with reasonable diligence.

In relation to the public sector, specific users of published performance reports may include customers (that is, the recipients of public goods or services), funders and financial supporters (including taxpayers and ratepayers), elected or appointed representatives (for example, members of Parliament and select committees), and interested members of the public (for example, media commentators, academics and other analysts, and members of relevant professional or community groups).

Although governors (for example, Ministers and local authority councillors), central agencies, other monitoring agencies, some grant providers, and other entities' management or those charged with governance are also users of published reports, they have access to, or are able to request, additional financial and performance information (that is, special purpose reports) in carrying out their governance, monitoring, or management responsibilities.

Requirements

Planning for the audit of the performance report

13. The Appointed Auditor shall plan the audit of the performance report as part of planning the annual audit, in keeping with the objectives of [AG ISA \(NZ\) 300: *Planning the annual audit*](#), by ensuring that the overall audit strategy and audit plan reflects any connections with the audit work to be performed on the public entity's financial information, including:
 - (a) assessing whether the public entity has complied with its performance reporting obligations as set out in applicable legislation;
 - (b) assessing whether the public entity's performance reporting framework provides an adequate basis for reporting the public entity's performance; and
 - (c) auditing the performance report, including evaluating the appropriateness of the public entity's performance information to form an opinion on whether the performance report:
 - presents fairly, in all material respects, the performance of the public entity for the reporting period; and
 - complies, where applicable, with generally accepted accounting practice ([Ref: Paras. A1-A2](#)).
14. The Appointed Auditor shall gain an understanding of the purpose of the public entity and the nature of its activities, in keeping with the objectives of [AG ISA \(NZ\) 315: *Understanding the entity and its environment*](#). This is necessary to, among other things, assist the Appointed Auditor to:
 - (a) assess the public entity's approach to performance management;
 - (b) provide a basis for assessing the appropriateness of the public entity's performance report; and
 - (c) plan the audit approach for auditing the performance report ([Ref: Para. A3](#)).
15. In meeting the requirements of paragraph 14 above, the Appointed Auditor shall, as part of obtaining an understanding of the public entity's systems of internal control, in keeping with the objectives of AG ISA (NZ) 315 (Revised 2019): *Understanding the entity and its environment*, identify whether any changes have been made to those systems since their most recent assessment. Where changes have been made, the Appointed Auditor shall evaluate the implications of those changes when planning the audit approach and the nature and extent of audit procedures to be carried out ([Ref: Paras. A4-A5](#)).
16. In determining the overall audit strategy and audit plan in keeping with AG ISA (NZ) 300: *Planning the annual audit*, the Appointed Auditor shall confirm in relation to the public entity's performance information:
 - (a) where the public entity intends to report its performance; and
 - (b) how the public entity intends to report its performance ([Ref: Para. A6](#)).

17. Where a public entity's performance is being reported as part of another public entity's performance report, the Appointed Auditor shall liaise with the Appointed Auditor(s) of the other public entity(s) to ensure that all material performance information relating to the public entity is audited. This is expected to include consideration of pre-engagement activities (including any impact on the audit engagement letter), audit planning, fieldwork, and reporting (including any impact on the letter of representation).

Assessing the forecast performance report

18. Because the content of the performance report is usually determined in advance as part of the forecast performance report (for example, in a statement of intent, forecast statement of service performance, statement of performance expectations, or long-term plan), the Appointed Auditor shall seek to obtain a copy of the forecast performance report before its approval and publication ([Ref: Paras. A7-A9](#)).
19. If the forecast performance report is obtained in enough time to enable the Appointed Auditor to consider the report and for the public entity to respond to the Appointed Auditor's comments, then the Appointed Auditor shall form a preliminary view, in the context of the matters considered during planning (as referred to in paragraphs 13 to 17 above), about:
 - (a) whether the public entity has complied with its performance reporting obligations as set out in applicable legislation;
 - (b) whether the forecast performance report incorporates an adequate performance reporting framework;
 - (c) whether the forecast performance report provides an adequate basis for presenting fairly, in all material respects, the performance of the public entity;
 - (d) where applicable, whether the forecast performance report complies with generally accepted accounting practice; and
 - (e) whether the public entity has adequate systems and controls in place to appropriately record and report its performance ([Ref: Paras. A10-A47](#)).
20. If the Appointed Auditor is of the view, after discussing with management or those charged with governance, that the forecast performance report will not meet the requirements of paragraph 19 above, then the Appointed Auditor shall notify the OAG. Once the Appointed Auditor has notified the OAG, the Appointed Auditor shall discuss their concerns with management or those charged with governance at the earliest opportunity, as this may provide an opportunity to make improvements to the forecast performance report before it is finalised or published.
21. If the Appointed Auditor has doubts about the seriousness of their concerns about the forecast performance report (including any concerns that the Appointed Auditor may have about the upcoming verification of the performance information to be contained in the performance report), then the Appointed Auditor shall consult with the OAG before discussing the concerns with management or those charged with governance.

22. The Appointed Auditor shall report to management or those charged with governance any significant deficiencies noted and any areas for improvement of the forecast performance report, in keeping with [AG ISA \(NZ\) 260: *Communication with those charged with governance*](#).

Auditing the performance report

Reconfirming the approach to auditing the performance report

23. The Appointed Auditor shall reconfirm their audit approach, as outlined in their overall audit strategy and audit plan, for the audit of the performance report in keeping with the objectives of [AG ISA \(NZ\) 300: *Planning the annual audit*](#), including taking into account any conclusions that were made on:
- (a) whether the public entity has complied with its reporting obligations as set out in applicable legislation;
 - (b) the adequacy of the performance reporting framework;
 - (c) the appropriateness of the forecast performance information;
 - (d) whether the forecast performance information complies with generally accepted accounting practice (where applicable); and
 - (e) the public entity's systems of internal control and the way the public entity manages and reports its performance.

Determining materiality

24. The Appointed Auditor shall determine and document the material performance information in keeping with the requirements of [AG ISA \(NZ\) 320: *Materiality in planning and performing an annual audit*](#). In doing so, the Appointed Auditor shall document their rationale for determining which performance information is material performance information.
25. The Appointed Auditor shall establish a basis and level for determining planning materiality that will be used to determine material performance information. The level should be based on the Appointed Auditor's judgement about the size of the misstatements that are likely to influence users' assessment of the performance of the public entity ([Ref: Para. A22 and A48-A49](#)).

Fieldwork

Obtaining audit evidence

26. The Appointed Auditor shall obtain sufficient appropriate audit evidence to support the verification of material performance information, in keeping with ISA (NZ) 500: *Audit Evidence*. This includes ensuring that any connections with the audit work to be performed on the public entity's financial information are made in such a way so as to maximise audit efficiency and effectiveness ([Ref: Paras. A50-A53](#)).

Evaluating information located outside the performance report

27. The Appointed Auditor shall evaluate any performance information that is located within the general purpose financial report but outside the performance report, in keeping with the requirements of [ISA \(NZ\) 720 \(Revised\): The auditor's responsibilities relating to other information in documents containing audited financial statements](#).
28. The Appointed Auditor shall clarify with the public entity whether there is any published performance information outside the general purpose financial report that is intended to form part of the performance report (that is, whether it forms part of the set of information intended to satisfy the public entity's statutory, regulatory, or other formal reporting requirements) and be subject to audit. The Appointed Auditor shall audit the performance information located outside the general purpose financial report that forms part of the public entity's performance report in accordance with the requirements of this standard.
29. Where the public entity's performance is being reported through the performance report of another public entity, the Appointed Auditor shall liaise with the Appointed Auditor of that entity. The Appointed Auditor needs to ensure that all material performance information included in the performance report of another public entity has been audited.

Determining whether there have been any changes in material performance information

30. The Appointed Auditor shall determine whether there have been any changes to the material performance information from that presented in the forecast performance report. Where the Appointed Auditor identifies that material elements (for example, outcomes, impacts, outputs), performance measures, or performance targets have been adjusted during the reporting period, the Appointed Auditor shall ensure that the changes have been appropriately approved, are adequately explained within the performance report, and do not detract from the ability of stakeholders to make an informed assessment of the performance of the public entity ([Ref: Paras. A54-A58](#)).

Evaluating management commentary

31. The Appointed Auditor shall apply professional judgement when determining the level of assurance that is required over the management commentary that is included within the performance report. In doing so, the Appointed Auditor shall evaluate the management commentary to determine the relevance and reliability of that commentary to the audited performance information.
32. Where there are material reported variances between forecast and actual performance results, the Appointed Auditor shall evaluate the explanations given for those variances and assess their reasonableness. If no explanation is given, then the Appointed Auditor shall determine whether the absence of explanation is likely to materially affect the ability of stakeholders to make an informed assessment of the public entity's performance.
33. Where the Appointed Auditor is of the view that the management commentary is misleading or inconsistent with information contained in the performance report or other parts of the general purpose financial report, the Appointed Auditor shall

request management or those charged with governance to justify their commentary or reconcile, remedy, or remove the misleading or inconsistent statements, as appropriate ([Ref: Paras. A59-A61](#)).

Assessing the reasonableness of cost allocations

34. The Appointed Auditor shall obtain reasonable assurance that costs have been appropriately allocated to each reported material output or output class. The cost allocation method, and the application of that method, should result in the performance report presenting a fair reflection of the cost of each reported output or output class ([Ref: Paras. A62-A63](#)).

Reporting

Forming an opinion on the performance report

35. The Appointed Auditor shall evaluate the appropriateness of the public entity's performance report against the applicable legislative requirements and assess whether the performance report presents fairly, in all material respects, the performance of the public entity and, where applicable, whether the performance report complies with generally accepted accounting practice.
36. In evaluating the appropriateness of the performance report, the Appointed Auditor shall bear in mind their conclusions on the appropriateness of the forecast performance report.
37. The Appointed Auditor shall evaluate the evidence obtained to support the verification of the material performance information.
38. If the Appointed Auditor has significant concerns about the adequacy of the performance report but is in doubt as to the seriousness of those concerns, including any serious concerns about the appropriateness of the content of the performance report or the verification of the material performance information, then the Appointed Auditor shall consult the OAG before forming their audit opinion or otherwise reporting such matters to management or those charged with governance.
39. Based on the outcome of the Appointed Auditor's evaluation in paragraphs 35 to 38 above, the Appointed Auditor shall form an opinion, in keeping with the requirements of [AG ISA \(NZ\) 700 \(Revised\): *Forming an opinion and reporting on financial statements*](#), on whether the performance report:
- (a) means that the public entity has complied with its performance reporting obligations as set out in applicable legislation;
 - (b) presents fairly, in all material respects, the public entity's performance for the relevant reporting period, including:
 - its performance achieved as compared with the forecast performance report for the reporting period(s); and
 - where legislation requires, its actual revenue and output expenses as compared with the forecasts contained in the corresponding forecast performance report; and

- (c) complies, where applicable, with generally accepted accounting practice
([Ref: Paras. A64-A70](#)).
40. In forming an opinion on the public entity's performance report (in conjunction with their opinion on the financial statements), the Appointed Auditor shall comply with the objectives of [ISA \(NZ\) 720 \(Revised\): *The auditor's responsibilities relating to other information in documents containing audited financial statements*](#) for any performance information that is included in the general purpose financial report but is located outside the performance report.
41. In forming an opinion on the public entity's performance report, the Appointed Auditor shall evaluate any performance information located outside the general purpose financial report that forms part of the public entity's performance report.

Reporting to the OAG

42. The Appointed Auditor shall report to the OAG in keeping with [AG-1: *Reporting to the OAG*](#), including outlining issues or misstatements identified during the audit of the performance report in the document summarising the audit conclusions that is prepared at the conclusion of the annual audit.

Communicating with management or those charged with governance

43. The Appointed Auditor shall, in keeping with the objectives of [AG ISA \(NZ\) 260: *Communication with those charged with governance*](#), communicate to management or those charged with governance:
- (a) issues relating to the public entity's compliance with its performance reporting obligations, as set out in applicable legislation;
 - (b) issues identified that may affect the adequacy of the performance reporting framework;
 - (c) issues identified that mean the performance report does not present fairly, in all material respects, the public entity's performance or does not comply, where applicable, with generally accepted accounting practice;
 - (d) issues with systems of internal control that affected, or may have affected, the performance report;
 - (e) uncorrected misstatements identified during the audit of the performance report in keeping with paragraph 12 of [ISA \(NZ\) 450: *Evaluation of misstatements identified during audit*](#); and
 - (f) other matters or issues, or improvements that need to be made to the public entity's performance report, that, in the Appointed Auditor's professional judgement, management or those charged with governance need to be aware of.

Application and other explanatory material

Planning for the audit of the performance report [\(Ref: Paras. 13-17\)](#)

A1. Statutes governing public entities' performance reporting obligations include the Public Finance Act 1989, Crown Entities Act 2004, Local Government Act 2002, Education Act 1989, and Energy Companies Act 1992, and may also include the public entity's enabling Act. As a result, the Appointed Auditor will need to maintain an understanding of the laws and regulations that specify the form, content, preparation, publication, and audit of the performance report and assess whether they have been met, in keeping with the objectives of [AG ISA \(NZ\) 250 \(Revised\): Consideration of laws and regulations](#).

A2. The Appointed Auditor's understanding of the way the public entity manages and reports its performance is essential for informing their views on the adequacy of the performance reporting framework. As a result, the Appointed Auditor will need to consider:

- how the public entity views the relationships between the various elements of its performance; and
- the public entity's performance priorities.

In doing this, the Appointed Auditor will need to consider matters that may have previously affected the public entity's performance report, including recent audit reports and communications with management or those charged with governance.

A3. In gaining an understanding of the public entity, the Appointed Auditor will also need to consider the public entity's (external and internal) business environment, any changes in that environment, and the possible implications for the audit.

A4. The Appointed Auditor should gain an understanding of how the public entity's performance information is prepared based on the public entity's systems of internal control. This will involve gaining an understanding of the policies, processes, systems, and structures employed by the public entity for planning, managing, reporting, and evaluating its overall performance. To do this effectively, the Appointed Auditor will need to understand:

- the public entity's approach to formulating strategy, its strategic planning processes, and the links to operations, in terms of planning, management, and reporting flows;
- its processes for:
 - specifying outcomes and impacts, outputs, resources, and processes for service delivery;
 - setting organisational objectives and targets;
 - establishing business plans and budgets; and
 - measuring and reporting performance throughout the different levels within (and outside) the public entity;
- how the public entity assesses its performance information needs for the purposes of management decision-making and accountability; and

- how the public entity designs, implements, and reviews the information systems that support its information requirements.

This understanding is essential for determining whether the public entity's performance objectives and achievements are adequately reflected in both the forecast performance report and performance report.

- A5. When assessing the public entity's systems of internal control, the Appointed Auditor should take into account any matters affecting the public entity's systems of internal control and performance information that may have been previously raised in reports to management or those charged with governance.
- A6. The Appointed Auditor needs to understand both where and how the public entity intends to report its performance because there is some flexibility in where and how public entities can report their performance, including those aspects of their performance that could be reported by another public entity. Where relevant, the Appointed Auditor will need to liaise with the Appointed Auditor(s) of other public entities to ensure that all material performance information will be audited.

Assessing the forecast performance report [\(Ref: Paras. 18-22\)](#)

- A7. In general, the long-term goals and objectives of public entities are set out in their legislation and strategic plans. The forecast performance report should reflect the way the public entity intends to manage its performance, and it should show how the annual performance contributes towards the long-term goals. The logic for the existence of activities and outputs should be clear and understandable.
- A8. The performance reports to be produced and the specific elements to be reported on will differ among public entities depending on their governing legislation. The Appointed Auditor needs to be familiar with the specific reporting requirements relating to the public entity. For most public entities reporting under the Public Finance Act, Crown Entities Act, or Local Government Act, a performance reporting framework is likely to include:
- a forecast performance report:
 - that may be presented in the *Estimates of Appropriations*, statements of performance expectations, statements of intent, annual plans, long-term plans, and similar documents; and
 - that is aimed at specifying the types and levels of service the public entity plans to deliver and how it plans to assess what its work is achieving; and
 - a performance report of actual performance achieved:
 - that is normally presented in the public entity's annual report;
 - that should cover what has been achieved against the performance intentions outlined in the forecast performance report;
 - that should report on outputs delivered against the planned outputs outlined in the forecast performance report; and

- that should disclose any other information necessary to enable an informed assessment of the public entity's performance. (This could include descriptions of identified effects of the public entity's interventions, including unintended consequences.)

For other public entities (for example, energy companies), the nature of the performance report may be specified in applicable legislation, which may indirectly determine the nature of the performance reporting framework.

- A9.** The forecast performance report should be requested at an early enough stage to allow the Appointed Auditor time to consider it and provide comments to the public entity and for the public entity to take those comments into account when finalising the report. Whether the Appointed Auditor is able to undertake this work will depend on the public entity making the forecast performance report available within a reasonable time before the report is formally approved. The extent of the Appointed Auditor's assessment of the forecast performance report will depend on the completeness of the forecast performance report. Early consideration of the forecast performance report is primarily for the benefit of the public entity in that it provides the opportunity for improvement before the forecast performance report is approved or published. The Appointed Auditor's work on the forecast performance report should be taken into account when reviewing the final forecast performance report. In undertaking this work on the forecast performance report, the Appointed Auditor should consider:
- whether the performance reporting framework reflected in the forecast performance report will provide a sufficient basis for stakeholders to make a meaningful assessment of the public entity's performance;
 - how well the forecast performance report links to the public entity's overall performance management and reporting arrangements;
 - the process for establishing and selecting the reported elements of performance reports (for example, outcomes, impacts, outputs, and their associated performance measures and performance targets); and
 - the content of the forecast performance report (for example, the outcomes, impacts, outputs selected for reporting, and their associated performance measures and performance targets) and how well they represent the public entity's strategic and operational performance objectives.
- A10.** In addition to the reports referred to in A8 being coherent within themselves, an adequate performance reporting framework requires that they are coherent in relation to each other. Each statement should demonstrate the links to the others so that users are able to ascertain how the various elements of performance relate to each other. Such links are necessary for enabling users to assess the effectiveness of the public entity's performance.
- A11.** The forecast performance report should clearly and accurately describe, classify, and group together the various elements of performance reports. For example, the reporting of outcomes should be clearly distinct from, but linked to, the reporting of outputs, where appropriate.

- A12. The forecast performance report should include enough contextual information (for example, on the public entity's statutory role and function, strategic goals, government and Ministerial priorities, external and internal risks and responses, and other information required by legislation or, where applicable, generally accepted accounting practice). It should also demonstrate logical links between such contextual information and the main components of the forecast performance report (for example, reports on intended outcomes/impacts and reports of planned outputs). This information provides a frame of reference for the public entity to demonstrate the appropriateness of its performance reporting.
- A13. The specific outcomes, output classes and outputs within each class, performance measures, and performance targets selected for external reporting purposes are confirmed at the stage at which the public entity prepares its forecast performance report, which may take place up to six months before the start of the reporting period to which it relates. The choice of performance elements reported against and the nature of performance measures and performance targets chosen by a public entity may have significant implications for audit work. For example, both the appropriateness of measures chosen and the auditability of systems used to record performance data are of primary interest to the Appointed Auditor. As a consequence, the timing of the public entity's planning process has an effect on the timing of audit work.
- A14. In assessing the forecast performance report, the Appointed Auditor should address the following matters:
- They should determine whether the public entity is complying with applicable laws and regulations for its performance reporting.
 - They should consider whether the public entity is using performance information for its performance report that is consistent with the information that managers within the public entity use to make decisions and monitor performance. The Appointed Auditor should, therefore, consider the public entity's environment (and any changes in that environment) as well as its systems of internal control, including the way it manages its performance, and consider what they would expect to see in the performance report. It is important for the Appointed Auditor to consider what should be included in the report, rather than simply validating the content that is included.
 - They should evaluate the adequacy of processes used to establish the selection of the elements of the performance report and their respective performance measures and performance targets – for example, whether adequate consultation (within or outside the public entity) is being undertaken.
 - They should determine the appropriateness of the selected outcomes, outputs and output classes, performance measures, and performance targets. The appropriateness of performance targets will usually be determined by considering the process for setting them.
 - They should consider whether there are any other issues in relation to the performance report, selection of outputs, performance measures, and performance targets that may affect the audit opinion – in particular, the auditability of the measures.

- A15. As part of determining whether the published or finalised forecast performance report provides an adequate basis for presenting fairly, in all material respects, the performance of the public entity and, where applicable, the approved or published forecast performance report complies with generally accepted accounting practice, the Appointed Auditor will need to understand the requirements that are specified in the public entity's relevant legislation.⁷
- A16. Generally accepted accounting practice provides the conceptual underpinning for performance reporting. Generally accepted accounting practice requires the description and disclosure of outputs and description of impacts and outcomes, where practicable and appropriate, and guidance is also provided on the specification, measurement, and reporting of performance.
- A17. Where the published or finalised forecast performance report is required to comply with generally accepted accounting practice, the Appointed Auditor will need to determine whether the reported outcomes, impacts, outputs, performance measures, and performance targets are appropriate and consistent with the requirements of generally accepted accounting practice.
- A18. The performance information presented should tell a meaningful story to users, links should be drawn between the different performance elements (for example, outputs, impacts, and outcomes), and the progress towards achieving long-term objectives should be discussed. In addition, the performance information needs to work in conjunction with the financial information to convey a coherent picture of the public entity's performance.
- A19. In determining the extent to which the appropriateness of the output information is adequately reflected in the forecast performance report, Appointed Auditors will need to analyse the various components of the public entity's performance reporting framework, including relevant contextual information (for example, legislative, strategy, and outcomes references), and that the framework contains credible links and is internally logical and consistent.

Qualitative characteristics of performance information

- A20. Appointed Auditors should apply the qualitative characteristics of performance information when assessing the appropriateness of:
- the performance objectives sought, in terms of outputs, impacts, and outcomes;
 - the dimensions of performance to be measured and, therefore, the performance measures selected;
 - the levels of performance aspired to (that is, the performance targets); and
 - the results achieved.

⁷ Some guidance is also provided by central agencies.

A21. To be *relevant*, the performance information should:

- be presented within the context of the public entity's strategic objectives, past performance, and current environment (including government themes, as appropriate, and other themes and considerations, such as sustainable development);
- show clear and logical links between organisational objectives (and themes), outcomes, impacts, outputs, and their associated performance measures and performance targets (so that the rationale for the selection of elements of performance, performance measures, and performance targets is evident);
- meet the information requirements of users (including by reporting different levels and layers of information) and be useful for decision-making, as appropriate; and
- be clearly linked to the financial information, including significant areas of planned expenditure.

A22. The relevance of information is affected by its nature and materiality. Performance information is considered material if, when reporting performance, it:

- relates to the primary functions or purposes of the public entity (that is, its "reason for being");
- could be of significant national or community interest or interest to the public, including the media;
- relates to a significant risk to the public (for example, the purity of water supply) or that could have a negative effect on social, economic, or environmental wellbeing;
- could contain errors or omissions that, individually or collectively, affect the performance report by altering users' perception in a way that is likely to influence their assessment of the public entity's performance or their decision-making;
- relates to a function where there is a significant risk of performance failure by the public entity;
- could contain errors or omissions that could adversely affect the reputation of the public entity or Parliament if they were to remain undetected (for example, relating to illegal acts);
- relates to an output that is financially significant; or
- relates to a performance target that may have a significant effect on management performance rewards.

A23. To be *reliable*, performance information should be:

- faithfully represented and supportable, in that:
 - it is measurable;
 - it represents what it purports to, or is expected to, represent (that is, it represents the substance of transactions and events);
 - informed users would reach the same, or similar, conclusions on the choice of elements of performance and performance measures; and

- it is free from material error (that is, it is accurate or capable of having its accuracy determined within an acceptable range of precision or certainty – that is, free from errors of method and errors of application);
- neutral (that is, free from bias in the selection, measurement, and disclosure of the elements of performance, performance measures, and performance targets); and
- complete and balanced, in that:
 - it is comprehensive enough, aggregated where appropriate, and reasonable (with the basis for aggregation clearly specified); and
 - it covers the significant activities and all important aspects (including identifying the important dimensions of performance) and gives them suitable emphasis, to present fairly, in all material respects, their significance to the public entity's performance.

A24. Biased reporting or distorted presentation of performance will not portray a complete picture of all significant performance objectives. On the other hand, giving equal weighting to performance measures that vary greatly in their significance may also fail to portray a sense of proportion representative of the public entity's activities. In this sense, "completeness" relates more to the need for a rounded and proportionate view of performance rather than to an overly comprehensive and voluminous set of performance measures, which can swamp the user and detract from the usefulness of the report.

A25. The use of external references and external assessment can enhance objectivity in performance measurement. For example, measuring performance against external benchmarks, standards, or predetermined criteria may provide more objectivity in the choice of measure than measures derived internally (that is, within the public entity). Also, the use of external parties to measure and assess historical performance may provide more objectivity than if performance were measured and assessed internally (that is, by employees of the public entity). However, although aspiring to high levels of objectivity is desirable, it may not always be realistic or appropriate depending on the nature of the output and the relevance of the measures sought.

A26. To be *understandable*, performance information should:

- have a clear format and layout;
- be presented in a way that engages the user – for example, by creating visual interest through the use of charts, tables, and symbols;
- classify reported items clearly and logically;
- be coherent, with easy-to-follow links between the different parts;
- be presented within the context of the public entity's strategic objectives, past performance, and current environment (including government themes, as appropriate, and other themes and considerations, such as sustainable development);
- show clear, logical, and easy-to-follow links between performance elements, (for example, outcomes, impacts, outputs, and other objectives) and their associated performance measures and targets;

- be clear and concise in its content; and
- be easy to read, expressed in plain English, and use words and terms suitable for users (with adequate explanations of acronyms, jargon, and technical terms).

A27. The level of detail should be such that users can readily understand the key issues.

A28. To be *comparable*, performance information should be presented to allow users to identify similarities and differences and to track progress:

- most importantly, of actual performance against forecast performance; and
- across different reporting periods and to identify trends.

This requires the performance report to be consistent in its format, its layout, and in the way information is classified, as well as in the selection, measurement, and disclosure of the elements of performance and related information.

A29. It is also desirable that performance reports are presented to allow users to identify similarities and differences among different entities, where appropriate and practicable.

A30. Appointed Auditors should encourage the public entity to:

- develop performance measures that are consistent over time;
- include long-term targets, where relevant; and
- reorient the focus of reporting by including information that enables users to track the public entity's progress in meeting both its short-term and long-term goals.

This will enable performance in the current reporting period to be assessed in the context of the public entity's longer-term goals. Note that, generally, such comparisons form the starting point for further questions from users of performance reports, rather than providing definitive answers.

A31. The information in the reports should also be timely and economical. Therefore, the Appointed Auditor should be mindful of the need for a balance between the cost and benefits of producing the information, as well as a balance among the qualitative characteristics of performance reports.

Outcomes and impacts

A32. There is rarely a single cause-and-effect relationship between outputs and outcomes. Often, several outputs relate to one outcome, and the reverse may also be true. The primary links may need to be set out in the performance report, as far as is practicable without sacrificing clarity.

A33. Outcomes are usually not completely under the control of a single entity or totally under the control of a group of entities. For instance, where the outcomes being sought by a public entity revolve around complex social questions or relationships, such as the crime rate, each outcome would usually result from a variety of factors, including, for example, the activities of all entities responsible for:

- economic development and employment;
- provision of adequate and equitable social welfare and security;
- provision of education and training; and
- policing, prosecution, sentencing, imprisonment, and rehabilitation.

The Appointed Auditor, therefore, needs to be alert to the importance of causality in assessing a public entity's forecast performance report.

- A34. However, the relationship of the output performance of many entities to the various levels of achievement against outcomes can provide useful information for assessing public sector performance and for future policy setting. Therefore, it is important that public entities consider the value and relevance of reporting outcomes they expect to influence and contribute to by their output delivery, even though they do not "control" the outcome. Public entities can provide a rich set of information by reporting achievement against outcomes at various levels (for example, high-level societal outcomes and more immediate outcomes/impacts over which the public entity has a stronger influence or closer control).
- A35. If the reported outcomes and impacts do not meet the qualitative characteristics of performance reports or do not adequately link with other performance information in the performance report, then the Appointed Auditor will need to consider the effect on the audit opinion and the management letter.

Appropriateness of reported outputs, performance measures, and performance targets

- A36. It is the public entity's responsibility to develop "appropriate" performance measures and performance targets (although, in some instances, significant performance benchmarks may be determined by legislation or regulation – for example, statutory time frames for approvals and the more general reporting framework for tertiary education institutions prescribed by the Tertiary Education Commission) for the reported outputs and output classes.
- A37. It is the Appointed Auditor's responsibility to assess the appropriateness of the performance report, including taking into account the requirements of users, by concluding whether the performance information taken as a whole presents fairly, in all material respects, the performance of the public entity.
- A38. When assessing the appropriateness of the performance information, the Appointed Auditor should do the following:⁸
- *Ascertain how users' views have been taken into account in assessing the quality of the public entity's performance.* As a minimum, the Appointed Auditor should assess whether management or those charged with governance have identified significant user groups, whether they have consulted with them, and what the result of those consultations was. The Appointed Auditor should consider any views of users of the performance report to assist in forming a view on the appropriateness of the

⁸ The procedures outlined in this paragraph should not be regarded as complete and are provided for the purposes of guidance only.

performance measures and performance targets. In doing so, it may be necessary for the Appointed Auditor to ask outcome-oriented questions about the nature of the information provided to users to help them understand the extent to which the public entity has achieved its goals. Although this presumes a knowledgeable and informed set of users, the Appointed Auditor may wish to focus on a significant user group, such as select committees (central government), as representatives of the wider user group.

- *Examine policy or outcome statements.* By examining policy or outcome statements of the public entity, the Appointed Auditor may be able to gain evidence to support the public entity's assertions that the reported outputs, performance measures, and performance targets in the forecast performance report are appropriate. The Appointed Auditor should also consider any output or purchase agreements or equivalent contractual documents between the public entity and the controlling entity, agency, individual, or Minister, as well as the outcome statements of policy setting and funding agencies within the same sector.
- *Assess process.* If an appropriate process is in place, appropriate reporting of outputs, performance measures, and performance targets should result. The Appointed Auditor could, therefore, evaluate the appropriateness of the process used by the public entity to develop and refine its reported outputs and performance measures.

Dimensions of performance

- A39. The performance report should disclose enough information on what is being measured and how it is being measured. Where one or more of the dimensions of performance is absent, the Appointed Auditor should assess whether the reasons for the exclusion are justified. Where, in the Appointed Auditor's opinion, such an exclusion is not justified, they should seek further explanations from management or those charged with governance. If still not fully satisfied, the Appointed Auditor is expected to consider the implications for the audit report or the management letter.
- A40. Performance measures on the quality of outputs can be contrasted in various ways:
- direct versus indirect measures;
 - quantitative versus judgemental (qualitative) criteria; and
 - expert assessment versus a lay person's assessment.
- A41. Direct measures on the quality of outputs should measure the properties or attributes inherent within the service itself. They could be said to result from direct observation of the service delivery or from data that record dimensions of the service delivered. Indirect measures also aim to capture information about the properties or attributes of a service but are derived by methods other than direct observation (for example, they can be derived from the results of survey questionnaires about user perceptions or experience of the quality of service received, which reflect the "eye of the customer").
- A42. Direct measures on the quality of outputs are likely to be more objective than, and are therefore usually preferable to, indirect measures. Nevertheless, indirect measures such as stakeholder or customer perceptions can provide relevant information when the surveys are

well designed and conducted, and the results are interpreted with enough caution. Direct measures on the quality of outputs should be used if possible, but they can be usefully supplemented by indirect measures, such as customer perception of the service. A public entity needs, at least, to consult stakeholders and ask what they value to (a) inform the selection of direct measures of quality and (b) help establish relevant questions for gauging stakeholder or customer perceptions on the quality of outputs.

- A43.** Often the quality of outputs will be expressed in a range of explicit, easily quantifiable, and objectively verifiable specifications or technical standards. For outputs for which quality is not so easily quantifiable, a more judgemental (or qualitative) approach is needed to assess the quality of the service. Quantitative measures that are readily observable are likely to provide a more objective means of assessing performance than qualitative measures based on individual judgement. However, measures that are more easily quantifiable and measurable may not necessarily constitute the more relevant measures of service quality. Therefore, public entities need to consider which types of measure would best capture the more relevant aspects of the quality of outputs.
- A44.** Many aspects of the quality of outputs are readily observable to the lay person (for example, customer, service provider, or other stakeholder – the “eye of the customer”), while other aspects require an expert assessment (the “eye of the expert”). These perspectives apply to both quantitative and qualitative approaches to assessing the quality of outputs. The lay person is often able to directly observe and interpret the technical specifications of the output and so determine the level of quality achieved; in other instances, the lay person may provide a more subjective judgement of the quality of outputs based on their experience (for example, their opinion of how good the service was). By contrast, some qualities expressed as quantifiable, technical specifications may require expert reading, analysis, and interpretation. In other instances, an expert may be required to provide a judgemental (or qualitative) assessment of service quality. (One example is peer review, in which service quality is determined by an expert who observes the service delivery and applies their professional judgement to assess the service, based on their expert knowledge and experience.)
- A45.** No particular combination of the above approaches to deriving measures or to assess the quality of outputs is of itself “correct”. Public entities may choose to measure and report on the basis of several approaches. However, they should prefer objective measures to subjective measures, subject to ensuring the more relevant properties of the output are captured by the performance measures. A range of different approaches to measuring the quality of outputs can be useful for providing confirmatory evidence or simply providing a different perspective. The Appointed Auditor should assess whether the public entity has considered a sufficient range of approaches to measuring quality before selecting the measures.
- A46.** In some instances, public entities may report input or process measures (or a combination of elements – for example, ratio of outputs to inputs) as a proxy for unobservable or difficult-to-measure outputs. Sometimes, process measures can provide useful and important information relating to the quality of outputs.

A47. Where public entities provide input or process measures as a proxy for output measures in the performance report, the Appointed Auditor needs to consider:

- whether there is enough justification for not providing output measures; and
- whether the input or process measures are appropriate and meet the qualitative characteristics of performance reports.

Auditing the performance report [\(Ref: Paras. 23-43\)](#)

Determining materiality

A48. Materiality, in the context of performance reports, relates to both:

- the importance of the performance information to providing a relevant and reliable representation of the public entity's performance ([ref: para A22](#)); and
- the level of misstatement of reported results that, based on the Appointed Auditor's professional judgement, are likely to influence users' assessment of the public entity's performance.

A49. In assessing and documenting the public entity's material performance information for the purpose of audit testing, the Appointed Auditor should take into account their conclusions on the forecast performance report and consider the following points:

- Determination of material performance information should be made only after discussions with the management or those charged with governance (and, if necessary and appropriate, select committees, politicians, or councillors).
- Determination of material performance information should be consistent with the auditor's knowledge of the political environment and information gleaned from sources such as minutes of meetings, media reports, and the like.

Obtaining audit evidence

A50. In gaining assurance through verification of the material performance information, the full range of normal audit procedures will usually be available to the Appointed Auditor.

A51. The mix of audit tests may vary compared with the mix used in auditing the financial information, but the non-financial aspects of a performance report do not in themselves alter the nature and level of evidence required.

A52. Audit procedures that may be applied to gain the required level of assurance when auditing performance information include:

- testing and evaluating the systems, processes, and controls that capture, record, analyse, and monitor the information;
- performing analytical procedures on the information; and
- performing other substantive or re-performance tests.

- A53. The quality of the systems used to record and control results and the nature and quality of evidence available about the reported performance measures may have an effect on the mix of tests used. For instance, weak recording or information systems may force the Appointed Auditor to use a substantive rather than a controls reliance approach.

Determining whether there have been any changes in material performance information

- A54. Consistency of measures between reporting periods is valuable, and, in some cases, it is a legislative requirement that the performance report includes comparative data for the previous period. However, improvement in the quality of performance information is more important than inter-period consistency.
- A55. The Appointed Auditor should check that material outputs, performance measures, and performance targets agree to any published statements. Where changes are noted, the Appointed Auditor should ensure that the change has been properly approved, which may include processes outlined in legislation, and published.
- A56. Where applicable, the Appointed Auditor should check that, where outputs, performance measures, or performance targets refer to standards outside the published measures (for example, those relating to a standard agreed with the Minister), those external standards have not changed significantly during the reporting period.
- A57. In addition to checking that the changes have been properly authorised, the Appointed Auditor should be satisfied with the reasons for any change. Changes relating solely to how performance is measured should improve the measurement of performance. The Appointed Auditor should be wary of unnecessary or unsupportable changes that give the appearance of an improved result, in a similar fashion to changes in accounting policies that are used to manipulate financial results. Such changes are not acceptable.
- A58. Where the Appointed Auditor considers that additional information about changes to reported outputs, output classes, performance measures, or performance targets should be disclosed for the performance report to be fairly stated, they should request that the report discloses (as a minimum) the nature of, and reasons for, the changes.

Evaluating management commentary

- A59. Where a public entity seeks to use management commentary as an alternative to performance information, the Appointed Auditor should consider modifying the audit opinion.
- A60. Management commentary should be included in, or along with, the performance report to assist users' interpretation of achievements that are not otherwise evident from the performance information.

A61. The Appointed Auditor's responsibility for commentary included as the part of the general purpose financial report not subject to audit is limited to following the requirements of [ISA \(NZ\) 720 \(Revised\): The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements](#).

Assessing the reasonableness of cost allocations

A62. The full and fair allocation of costs to outputs is one of the cornerstones of an efficient management control system. The information such systems generate should enable users, including management or those charged with governance, to make decisions concerning resource use, budgetary implications, the cost of outputs, and the extent of cross-subsidisation. Therefore, such systems can have a considerable effect on the disclosures in performance reports.

A63. The audit focus should be on the method of allocation including the underlying assumptions. Therefore, the Appointed Auditor is likely to concentrate on the following:

- Ensuring the method of allocation is reasonable and supportable. (The allocation of overheads should follow a cause and effect relationship. The factors that cause the consumption of overheads are called "cost drivers". Although some proportion of overhead will not be traceable to a particular output, the aim is to identify a causal link wherever possible. Activity-based costing will be relevant for achieving a more accurate cost of outputs in some cases.)
- Testing the reasonableness of the underlying assumptions.
- Ensuring that there is consistency of treatment within the reporting period (that is, costs are allocated on the same basis as funds are appropriated or budgeted), and between reporting periods where applicable.

Forming an opinion on the performance report

A64. Following the completion of fieldwork, the Appointed Auditor should reconsider their earlier decision about the adequacy of the performance reporting framework and, in particular, the appropriateness of the content of the performance report. To form an opinion on the performance report, the Appointed Auditor should consider the forecast performance report as well any other relevant performance information included within the general purpose financial report of the public entity or, where relevant, other public entities.

A65. In forming the audit opinion, the Appointed Auditor needs to determine whether the performance report complies with the public entity's reporting requirements as set out in applicable legislation, presents fairly, in all material respects, the public entity's performance for the reporting period and, where applicable, complies with generally accepted accounting practice. To do so, the Appointed Auditor should obtain an overview of the performance reporting framework, giving particular attention to the links (as relevant) between the following aspects:

- contextual information (including the public entity's role, purpose, function, and strategic objectives);

- short-term, medium-term, and longer-term information;
- the elements of performance (including outcomes, impacts, outputs, and inputs, where relevant);
- performance measures, performance targets, and results (including consideration of the effect of uncorrected errors of misstatement and omission); and
- management commentary within and outside the audited performance information.

A66. The Appointed Auditor shall take into account the forecast performance report and the performance report prepared after the end of the reporting period, together with any other relevant performance information, within the general purpose financial report, for the purpose of determining the appropriateness of the performance report. The Appointed Auditor's determination will be based on their conclusion about whether the performance report presents fairly, in all material respects, the public entity's performance for the reporting period and, where applicable, complies with generally accepted accounting practice.

A67. The Appointed Auditor will have drawn conclusions on the adequacy of the performance reporting framework when evaluating the forecast performance report. The Appointed Auditor shall, therefore, take into account any significant differences between the forecast performance report and the performance report prepared after the end of the reporting period.

A68. The Appointed Auditor's opinion on the performance report is formed in the context of the information provided in the performance report. Performance reporting is usually concerned with reporting how well services are delivered (output delivery performance) and how effective the services are at achieving the public entity's service objectives (achievement of impacts and outcomes). Therefore, in performing the audit work necessary to form an audit opinion on the performance report, the Appointed Auditor will be required to assess how well the performance information is presented. The performance report, together with other information in the general purpose financial report, should provide the information necessary to enable an informed assessment to be made of the public entity's performance during the reporting period.

A69. The specific circumstances that may influence the decision on whether to modify the audit opinion regarding performance information, in keeping with the requirements of [AG ISA \(NZ\) 705 \(Revised\): Modifications to the Opinion](#), include:

- The performance report does not comply with generally accepted accounting practice where it is required to comply with generally accepted accounting practice or otherwise fails to present fairly, in all material respects, the performance of the public entity to the extent that, in the Appointed Auditor's professional judgement, the reported performance information is likely to influence users' assessment of the public entity's performance, for any of the following reasons:
 - material performance information is omitted; or
 - material performance information is inappropriate (for example, it does not satisfy the qualitative characteristics of performance reports).

In such circumstances, the Appointed Auditor will need to consider whether to issue a modified (adverse, disclaimer, or qualified) opinion.

- Results reported for material performance measures do not meet the requisite evidential criteria, the systems or processes for controlling and recording performance information are deficient, or results reported for material performance measures cannot be substantiated. In such circumstances, the Appointed Auditor will need to consider whether to issue a modified opinion.
- Management commentary within the performance report is used as an aid to understanding the report, but the commentary or explanations given are insufficient, inconsistent, or misleading. In such circumstances, the Appointed Auditor will need to consider whether to issue a modified opinion and/or whether to report the issues to management or those charged with governance.

A70. Other circumstances that could result in the inclusion of an “emphasis of matter” or “other matter” paragraph in the audit report, in keeping with the requirements of [AG ISA \(NZ\) 706: *Emphasis of Matter Paragraphs and Other Matter Paragraphs*](#), include the following:

- Laws and regulations for approval, format, publication, and circulation of plans and performance reports are not being followed – for example, where performance measures or performance targets have not been legally or otherwise properly approved. In such circumstances, the Appointed Auditor will need to consider whether this should be included in the audit report and/or whether to report the issue to management or those charged with governance.
- Material performance information is considered to be appropriate but is poorly presented. In such circumstances, the Appointed Auditor should consider whether to report the issue to management or those charged with governance.
- Changes made to material performance measures during the reporting period have not been legally or otherwise properly approved, or the changed measures are less appropriate, or the changes have not been adequately explained in the performance report. In such circumstances, the Appointed Auditor will need to consider whether a legislative breach should be reported in a management letter to the entity and/or whether to include an emphasis of matter or other matter paragraph in the audit report, as appropriate.