



NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

## **Amendments to Auditing and Assurance Standards: Omnibus Amendments (Legislative Update)**

### **Issued February 2014**

Issued by the New Zealand Auditing and Assurance Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

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ISBN 978-1-927238-97-4

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Note: The footnote numbers within these amendments do not align with the actual footnote numbers of the standards that will be amended, and reference should be made to those compiled standards.

## Amendments to Reflect Expected Legislative Changes

### Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners

Amend paragraph NZ290.1.1, 290.27, NZ291.1.1 and affected definitions to replace references to issuers and reflect updated terminology. New text is underlined and deleted text is struck through.

- NZ290.1.1 This section also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of a ~~an issuer~~FMC reporting entity in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.
- 290.27 In the case of an audit or review client that is an ~~an issuer~~FMC reporting entity, references to an audit or review client in this section include related entities of the client (unless otherwise stated). For all other audit or review clients, references to an audit or review client in this section include related entities over which the client has direct or indirect control. When the audit or review team knows or has reason to believe that a relationship or circumstance involving another related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit or review team shall include that related entity when identifying and evaluating threats to independence and applying appropriate safeguards.
- NZ291.1.1 Section 290 also addresses the independence requirements for assurance engagements where assurance is provided in relation to an offer document of an ~~an issuer~~FMC reporting entity in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

#### Definitions

Audit client	An entity in respect of which a firm conducts an audit engagement. When the client is an <del>an issuer</del> <u>FMC reporting entity</u> , audit client will always include its related entities. When the audit client is not an <del>an issuer</del> <u>FMC reporting entity</u> , audit client includes those related entities over which the client has direct or indirect control.
<del>[NZ] Issuer</del> <u>FMC reporting entity</u>	<del>All issuers, as defined by the Securities Act 1978 or any other Act, irrespective of size.</del> <u>A FMC reporting entity as defined in section 451 of the Financial Markets Conduct Act 2013.</u>
[NZ] Offer document	A document, such as a <del>prospectus</del> <u>product disclosure statement or a disclosure document</u> , required by legislation to be prepared by an <del>entity</del> <u>Issuer</u> when <del>securities</del> <u>financial products</u> are offered to the public.

Financial statements      A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term can relate to a complete set of financial statements, but it can also refer to a single financial statement, for example, a ~~balance sheet~~statement of financial position, or a statement of revenues and expenses, and related explanatory notes.

### **Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements***

Amend the definitions in paragraph NZ12.4-NZ12.5 and paragraphs 35, 38, A41, A44-A47 to replace references to issuers. New text is underlined and deleted text is struck through.

- NZ12.4    Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the report, of the significant judgements the engagement team made and the conclusions it reached in formulating the report. The engagement quality control review process is for audits of financial statements of ~~issuers~~FMC reporting entities, and those other assurance engagements, if any, for which the firm has determined an engagement quality control review is required.
- NZ12.5    ~~Issuer~~FMC reporting entity – ~~All issuers, as defined by the Securities Act 1978 (or any Act that replaces it) or any other Act (no matter what size).~~ A FMC Reporting Entity as defined in section 451 of the Financial Markets Conduct Act 2013.
35.        The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:
- (a)    Require an engagement quality control review for all audits of financial statements of ~~issuers~~FMC reporting entities;
38.        For audits of financial statements of ~~issuers~~FMC reporting entities, the firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following:
- A41.        Criteria for determining which engagements other than audits of financial statements of ~~issuers~~FMC reporting entities are to be subject to an engagement quality control review may include, for example:
- A44.        The extent of the engagement quality control review may depend, among other things, on the complexity of the engagement, whether the entity is an ~~issuer~~FMC reporting entity, and the risk that the report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner.

Engagement Quality Control Review of a FMC Reporting Entity~~Issuers~~ (Ref: Para. 38)

- A45.        Other matters relevant to evaluating the significant judgements made by the engagement team that may be considered in an engagement quality control review of an audit of financial statements of an FMC reporting entity ~~issuer~~ include:

- A46. Although not referred to as ~~issuers~~FMC reporting entities, as described in paragraph A16, certain public entities may be of sufficient significance to warrant performance of an engagement quality control review.
- A47. What constitutes sufficient and appropriate technical expertise, experience and authority depends on the circumstances of the engagement. For example, the engagement quality control reviewer for an audit of the financial statements of ~~an issuer~~FMC reporting entity is likely to be an individual with sufficient and appropriate experience and authority to act as an audit engagement partner on audits of financial statements of ~~issuers~~FMC reporting entities.

### **ISA (NZ) 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)**

Amend paragraph A65 to replace references to issuers. New text is underlined and deleted text is struck through.

- A65. The considerations specific to smaller entities included in the ISAs (NZ) have been developed primarily with non-~~issuer~~FMC reporting entities in mind. Some of the considerations, however, may be helpful in audits of smaller ~~issuers~~FMC reporting entities.

### **ISA (NZ) 220 Quality Control for an Audit of Financial Statements**

Amend paragraph 7(b), NZ7.1, 19, NZ 21.1, A23, A27-A29, A31 to replace references to issuers. New text is underlined and deleted text is struck through.

#### Definitions

- 7(b) Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the auditor’s report, of the significant judgements the engagement team made and the conclusions it reached in formulating the auditor’s report. The engagement quality control review process is only for audits of financial statements of ~~issuers~~FMC reporting entities and those other audit engagements, if any, for which the firm has determined an engagement quality control review is required.
- NZ7.1 ~~Issuer~~ – An entity referred to under section 4 of the Financial Reporting Act 1993 and includes an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body. FMC Reporting Entity – A FMC Reporting Entity as defined in section 451 of the Financial Markets Conduct Act 2013.
19. For audits of financial statements of ~~issuers~~FMC reporting entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement partner shall:...
- NZ21.1 For audits of financial statements of ~~issuers~~FMC reporting entities, and those other audit engagements, if any, for which the firm has determined that an engagement quality control review is required, the engagement quality control reviewer, on performing an engagement quality control review, shall also consider the following:...

- A23. ISA (NZ) 700 requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the auditor's opinion on the financial statements.<sup>1</sup> In cases of an audit of financial statements of ~~issuers~~ FMC reporting entities or when an engagement meets the criteria for an engagement quality control review, such a review assists the auditor in determining whether sufficient appropriate evidence has been obtained.
- A27. The extent of the engagement quality control review may depend, among other things, on the complexity of the audit engagement, whether the entity is ~~an issuer~~ FMC reporting entity, and the risk that the auditor's report might not be appropriate in the circumstances. The performance of an engagement quality control review does not reduce the responsibilities of the engagement partner for the audit engagement and its performance.

#### Engagement Quality Control Review of ~~Issuers~~ FMC Reporting Entities (Ref: Para. 21)

- A28. Other matters relevant to evaluating the significant judgements made by the engagement team that may be considered in an engagement quality control review of ~~an issuer~~ FMC reporting entity include:
- A29. In addition to the audits of financial statements of ~~issuers~~ FMC reporting entities, an engagement quality control review is required for audit engagements that meet the criteria established by the firm that subjects engagements to an engagement quality control review. In some cases, none of the firm's audit engagements may meet the criteria that would subject them to such a review.
- A31. ~~Issuers~~ FMC reporting entities as referred to in paragraphs 21 and A28 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Examples include state owned enterprises and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review.

### **ISA (NZ) 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements**

Amend paragraph A29 to replace references to issuers. New text is underlined and deleted text is struck through.

- A29. The risks of fraud in revenue recognition may be greater in some entities than others. For example, there may be pressures or incentives on management or those charged with governance to commit fraudulent financial reporting through inappropriate revenue recognition in the case of ~~issuers~~ FMC reporting entities when, for example, performance is measured in terms of year-over-year revenue growth or profit. Similarly, for example, there may be greater risks of fraud in revenue recognition in the case of entities that generate a substantial portion of revenues through cash sales.

### **ISA (NZ) 260 Communication with Those Charged with Governance**

<sup>1</sup> ISA (NZ) 700, "Forming an Opinion and Reporting on Financial Statements," paragraph 41.

Amend paragraph 1, 17, A23 and A31 to replace references to issuers. New text is underlined and deleted text is struck through.

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this ISA (NZ) applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for ~~issuers~~FMC reporting entities. This ISA (NZ) does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.
17. In the case of ~~issuers~~FMC reporting entities, the auditor shall communicate with those charged with governance: ... (Ref: Para. A21-A23)
- A23. The communication requirements relating to auditor independence that apply in the case of ~~issuers~~FMC reporting entities may also be relevant in the case of some other entities, particularly those that may be of significant public interest because, as a result of their business, their size or their corporate status, they have a wide range of stakeholders. Examples of entities that are not ~~issuers~~FMC reporting entities, but where communication of auditor independence may be appropriate, include public sector entities that are not FMC reporting entities, ~~credit institutions, insurance companies, and retirement benefit funds~~. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.
- A31. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of ~~issuers~~FMC reporting entities or larger entities.

### **ISA (NZ) 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management***

Amend paragraph A9 and A13 to replace references to issuers. New text is underlined and deleted text is struck through.

- A9. Law or regulation in some jurisdictions may establish a requirement (particularly for audits of ~~issuers~~FMC reporting entities) for the auditor to communicate to those charged with governance or to other relevant parties (such as regulators) one or more specific types of deficiency in internal control that the auditor has identified during the audit. Where law or regulation has established specific terms and definitions for these types of deficiency and requires the auditor to use these terms and definitions for the purpose of the communication, the auditor uses such terms and definitions when communicating in accordance with the legal or regulatory requirement.
- A13. In determining when to issue the written communication, the auditor may consider whether receipt of such communication would be an important factor in enabling those charged with governance to discharge their oversight responsibilities. In addition, for ~~issuers~~FMC reporting entities~~in certain jurisdictions~~, those charged with governance may need to receive the auditor's written communication before the date of approval of the financial statements in order to discharge specific responsibilities in relation to internal



control for regulatory or other purposes. For other entities, the auditor may issue the written communication at a later date. Nevertheless, in the latter case, as the auditor's written communication of significant deficiencies forms part of the final audit file, the written communication is subject to the overriding requirement<sup>2</sup> for the auditor to complete the assembly of the final audit file on a timely basis. ISA (NZ) 230 states that an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.<sup>3</sup>

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<sup>2</sup> ISA (NZ) 230, "Audit Documentation," paragraph 14.

<sup>3</sup> ISA (NZ) 230, paragraph A21.

## **ISA (NZ) 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures**

Amend the appendix to replace references to issuers. New text is underlined and deleted text is struck through.

### **Appendix**

#### **Prevalence of Fair Value Measurements**

8. Measurements and disclosures based on fair value are becoming increasingly prevalent in financial reporting frameworks. Fair values may occur in, and affect the determination of, financial statements in a number of ways, including the measurement at fair value of the following:
- Specific assets ...
  - Specific components of equity, for example when accounting for the recognition, measurement and presentation of certain financial instruments with equity features, such as a bond convertible by the holder into common shares of the issuer FMC reporting entity.

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

Amend appendix 2 to remove references related to exempt companies. New text is underlined and deleted text is struck through.

**[NZ] Appendix 2**

(Ref: Para. NZ 33.1)

#### **Existence of any Other Relationship of the Auditor with the Entity**

~~The Financial Reporting Act 1993 (sections 16 and 17) requires the audit report of a reporting entity or an exempt company to state the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity or any of its subsidiaries (in the case of a reporting entity).~~

Paragraph NZ 33.1 of this Standard requires the auditor of *all* entities to state in the audit report the existence of any relationship (other than that of auditor) which the auditor has with, or any interests the auditor has in, the entity or any of its subsidiaries.

The material below sets out an example of wording which can be used in the audit report where the auditor has a relationship with (other than that of auditor), or interests in, an entity or any of its subsidiaries.

“Our firm carries out other assignments for the (entity) in the area of taxation advice and special consultancy projects. In addition to this, principals and employees of our firm deal with the (entity) on normal terms within the ordinary course of trading activities of the business of (entity). The firm has no other relationship with, or interests in, the (entity).”

## **ISA (NZ) 705 Modifications to the Opinion in the Independent Auditor's Report**

Delete paragraph NZ27.1 to remove references related to the Financial Reporting Act 1993. Deleted text is struck through.

~~NZ 27.1 — Where the audit engagement is subject to the requirements of the Financial Reporting Act 1993, the audit report is required to state the work done by the auditor and the scope and limitations of the audit.<sup>4</sup> Therefore, in the situation described in paragraph 27, the auditor shall include in the Basis for Disclaimer of Opinion paragraph details outlining the work done and the scope and limitation of the audit. Illustrations 4 to 6 give examples of wording to meet this requirement.~~

## **Standard on Assurance Engagements 3100 Compliance Engagements**

Amend paragraph 12 and A5 to remove references to the Securities Regulations 1983. New text is underlined and deleted text is struck through.

12. The assurance practitioner shall implement quality control procedures that apply to the individual engagement, in accordance with ~~Professional and Ethical Standard 3~~ISAE (NZ) 3000.
- A5. The subject matter for a compliance engagement can take many forms. Examples include:
- risk management strategy and plans.
  - environmental management strategy and plans.
  - compliance plans for managed investment schemes.
  - health and safety procedures.

Subject matter information for a compliance engagement can also take many forms. Examples include:

- information returns asserting compliance with capital adequacy requirements of registered banks in accordance with the requirements specified by the Reserve Bank of New Zealand.
- reports produced under applicable laws or regulations, for example reports produced for the trustee of a continuous issuer of debt securities ~~under the Securities Regulations 1983~~ asserting compliance with relevant requirements contained in ~~the Securities Regulations~~ financial markets legislation.

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<sup>4</sup> ~~Financial Reporting Act 1993, sections 16 (1) (a) and (b) — reporting entities; and sections 17 (1) (a) and (b) — exempt companies.~~

## Amendments to Reflect the new Accounting Standards Framework

### **ISA (NZ) 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)**

Amend paragraph 3, 13(j) and A7 and insert new paragraphs NZ A7.1 and NZ A7.2 to reflect new financial reporting frameworks. New text is underlined and deleted text is struck through.

3. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view ~~of the matters to which they relate~~, in accordance with the framework. An audit conducted in accordance with ISAs (NZ) and relevant ethical requirements enables the auditor to form that opinion.

13.(j) ...

In the case of a fair presentation framework, (i) above may be restated as “for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework” or “for the preparation of financial statements *that give a true and fair view* ~~of the matters to which they relate~~ in accordance with the financial reporting framework.”

....

- A7. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. Financial reporting frameworks that encompass primarily the financial reporting standards established by an organisation that is authorised or recognised to promulgate standards to be used by entities for preparing general purpose financial statements are often designed to achieve fair presentation, for example, New Zealand Equivalents to International Financial Reporting Standards (NZ IFRSs) issued by the International Accounting Standards Board (IASB).

NZ A7.1 Examples of financial reporting frameworks that are designed to achieve fair presentation in New Zealand include:

- New Zealand Equivalents to International Financial Reporting Standards (NZ IFRSs);
- New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRSs RDR);
- Public Benefit Entity Standards (PBE Standards);
- Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR);
- Public Benefit Entity Simple Format Reporting Standard – Accrual (Public Sector) (PBE SFR – A (PS));

- Public Benefit Entity Simple Format Reporting Standard – Accrual (Not-For-Profit) (PBE SFR – A (NFP)).

NZ A7.2 Examples of compliance frameworks in New Zealand include:

- Public Benefit Entity Simple Format Reporting Standard – Cash (Public Sector);
- Public Benefit Entity Simple Format Reporting Standard – Cash (Not-For-Profit).

A13. Where the financial reporting framework is a fair presentation framework, as is generally the case for general purpose financial statements, the opinion required by the ISAs (NZ) is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view ~~of the matters to which they relate~~. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the ISAs (NZ) to the auditor’s opinion cover both forms of opinion.

### **ISA (NZ) 210 Agreeing the Terms of Audit Engagements**

Amend paragraph 19, A8, A15 and Appendix 1 and insert new paragraph NZ A8.1 to reflect new financial reporting frameworks. New text is underlined and deleted text is struck through.

19. (b) ...

- (ii) Unless the auditor is required by law or regulation to express the auditor’s opinion on the financial statements by using the phrases “present fairly, in all material respects,” or “give a true and fair view ~~of ...~~” in accordance with the applicable financial reporting framework, the auditor’s opinion on the financial statements will not include such phrases.

A8. At present, there is no objective and authoritative basis that has been generally recognised globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organisations that are authorised or recognised to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities, provided the organisations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. Examples of such financial reporting standards include:

- ~~New Zealand Equivalents to International Financial Reporting Standards (NZ IFRSs) approved by the Accounting Standards Review Board;~~
- International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board;
- International Public Sector Accounting Standards (IPSASs) promulgated by the International Public Sector Accounting Standards Board; and
- Accounting principles promulgated by an authorised or recognised standards setting organisation in a particular jurisdiction, provided the organisation follows an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.

NZ A8.1 Examples of financial reporting standards issued by the New Zealand Accounting Standards Board that apply in New Zealand include:

- New Zealand Equivalents to International Financial Reporting Standards (NZ IFRSs);
- New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRSs RDR);
- Public Benefit Entity Standards (PBE Standards);
- Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR);
- Public Benefit Entity Simple Format Reporting Standard – Accrual (Public Sector) (PBE SFR – A (PS));
- Public Benefit Entity Simple Format Reporting Standard – Accrual (Not-For-Profit) (PBE SFR – A (NFP));
- Public Benefit Entity Simple Format Reporting Standard – Cash (Public Sector) (PBE SFR – C (PS));
- Public Benefit Entity Simple Format Reporting Standard – Cash (Not-For-Profit) (PBE SFR – C (NFP));

These financial reporting standards are often identified as the applicable financial reporting framework in law or regulation governing the preparation of general purpose financial statements.

- A15. Most financial reporting frameworks include requirements relating to the presentation of the financial statements; for such frameworks, *preparation* of the financial statements in accordance with the financial reporting framework includes *presentation*. In the case of a fair presentation framework the importance of the reporting objective of fair presentation is such that the premise agreed with management includes specific reference to fair presentation, or to the responsibility to ensure that the financial statements will “give a true and fair view of...” in accordance with the financial reporting framework.

## Appendix 1

The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards ~~generally accepted accounting practice~~. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISA (NZ).

...

[The responsibilities of the directors and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 6(b) of this ISA (NZ) are therefore used).]

Our audit will be conducted on the basis that the [directors] acknowledge and understand that they have responsibility:

- (a) For the preparation and fair presentation of the financial statements in accordance ~~with generally accepted accounting practice~~ in New Zealand Equivalents to International Financial Reporting Standards ~~and that give a true and fair view of the matters to which they relate~~<sup>5</sup>;

....

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<sup>5</sup> Or if appropriate, “For the preparation of financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards.”

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

Insert new paragraph NZ9.1, NZ37.1, NZ 43(f)1, NZA8.1 and NZA30.1, delete paragraph NZ43.2 and NZA27.1, and amend paragraph A8 and A30-A32 to reflect new financial reporting frameworks. New text is underlined and deleted text is struck through.

9. Reference to “International Financial Reporting Standards” in this ISA (NZ) means the International Financial Reporting Standards issued by the International Accounting Standards Board, and reference to “International Public Sector Accounting Standards” means the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board.

NZ9.1 Reference to “New Zealand Equivalents to International Financial Reporting Standards” or other accounting standards in this ISA (NZ) means the New Zealand Equivalents to International Financial Reporting Standards or other accounting standards issued by the New Zealand Accounting Standards Board.

37. If the reference to the applicable financial reporting framework in the auditor’s opinion is not to International Financial Reporting Standards issued by the International Accounting Standards Board or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board, the auditor’s opinion shall identify the jurisdiction of origin of the framework.

NZ37.1 For an entity in New Zealand, that is required to apply the multi-standards, multi-tiered accounting standards framework, the reference to the applicable financial reporting framework in the auditor’s opinion should be to the specific set of standards issued by the New Zealand Accounting Standards Board that apply to the tier under which the entity is reporting.

43. (f) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards, see paragraph 37);

NZ43.(f)1 An opinion paragraph containing an expression of opinion on the financial statements and a reference to a specific set of standards issued by the New Zealand Accounting Standards Board used to prepare the financial statements.

~~NZ43.1 If the prescribed layout or wording do not meet the minimum requirements above, the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ).<sup>6</sup>~~

- A8. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (for example, ~~generally accepted accounting practice in New Zealand~~ New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards). This may be because those charged with governance are required, or have chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. ~~Non-public benefit entities who do not qualify for differential reporting~~

<sup>6</sup>—See ISA (NZ) 210, “Agreeing the Terms of Audit Engagements,” paragraphs 21 and NZ 21-1.

~~concessions, or who are qualifying entities but elect not to apply any of the differential reporting concessions available in the *Framework for Differential Reporting*, will be able to claim compliance with International Financial Reporting Standards if they comply with all the requirements of the New Zealand Equivalents to International Financial Reporting Standards.~~

NZ A8.1 Tier 1 for-profit entities will be able to claim compliance with International Financial Reporting Standards if they comply with all the requirements of the New Zealand Equivalents to International Financial Reporting Standards.

~~NZ A27.1 Professional and Ethical Standard 1,<sup>7</sup> Rule 11 requires assurance practitioners to comply with Auditing Standards; therefore assurance practitioners shall not sign an audit report that does not conform to the requirements of this ISA (NZ). In the extremely rare situation described above, the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ).~~

A30. The identification of the applicable financial reporting framework in the auditor’s opinion is intended to advise users of the auditor’s report of the context in which the auditor’s opinion is expressed; it is not intended to limit the evaluation required in paragraph 14. The applicable financial reporting framework is identified in such terms as:

“... in accordance with International Financial Reporting Standards” or

“... in accordance with generally accepted accounting practice in ~~New Zealand~~ jurisdiction X.”

NZ A30.1 Examples of applicable financial reporting frameworks in New Zealand (and which are issued by the New Zealand Accounting Standards Board) are the following:

“... in accordance with New Zealand Equivalents to International Financial Reporting Standards”;

“... in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime”;

“... in accordance with Public Benefit Entity Standards”;

“... in accordance with Public Benefit Entity Standards Reduced Disclosure Regime”;

“... in accordance with Public Benefit Entity Simple Format Reporting Standard – Accrual (Public Sector)”;

“... in accordance with Public Benefit Entity Simple Format Reporting Standard – Accrual (Not For Profit)”;

“... in accordance with Public Benefit Entity Simple Format Reporting Standard – Cash (Public Sector)”;

“... in accordance with Public Benefit Entity Simple Format Reporting Standard – Cash (Not For Profit)”.

A31. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as “... in accordance with New Zealand Equivalents to International Financial Reporting Standards<sup>8</sup> and the requirements of Jurisdiction X Corporations Act.” ISA (NZ) 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.<sup>9</sup>

A32. As indicated in paragraph A8, the financial statements may be prepared in accordance with two financial

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<sup>7</sup> PES-1, “Ethical Standards for Assurance Practitioners”.

<sup>8</sup> Include the appropriate set of accounting standards used.

<sup>9</sup> ISA (NZ) 210, paragraph 18.



reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 35-36 refers to both frameworks as follows:

- (a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (for example, ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (for example, International Financial Reporting Standards). These opinions may be expressed separately or in a single sentence (for example, the financial statements are presented fairly, in all material respects, in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards and with International Financial Reporting Standards).

### **ISA (NZ) 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

Amend paragraph A8 to reflect new financial reporting frameworks. New text is underlined and deleted text is struck through.

- A8. An entity may prepare one set of financial statements in accordance with a general purpose framework (for example, ~~the national framework~~ the appropriate set of accounting standards in New Zealand) and another set of financial statements in accordance with another general purpose framework (for example, International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.

### **ISA (NZ) 805 *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement***

Amend paragraph A7, A9. New text is underlined and deleted text is struck through.

- A7. A single financial statement or a specific element of a financial statement may be prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements (for example, ~~International Financial Reporting Standards~~ the appropriate set of accounting standards issued by the New Zealand Accounting Standards Board). If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.

- A9. In the case of a single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the element. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements (for example, ~~International Financial Reporting Standards~~ the appropriate set of accounting standards issued by the New Zealand Accounting Standards Board). The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework. Factors that may affect the auditor’s consideration as to whether to use the phrases “presents fairly, in all material respects,” or “gives a true and fair view of ...” in the auditor’s opinion include:...

## Amendments to Illustrative Auditor Reports

Amend illustrative examples in ISA (NZ) 510, ISA (NZ) 570, ISA (NZ) 600, ISA (NZ) 700, ISA (NZ) 705, ISA (NZ) 706 and ISA (NZ) 710 to reflect the expected legislative changes and the new accounting standards framework. New text is underlined and deleted text is struck through.

### ISA (NZ) 510 *Initial Audit Engagements – Opening Balances*

#### Appendix

**Illustration 2:** Circumstances described in paragraph A8(b) include the following:

- ~~• The company is a reporting entity as defined by the Financial Reporting Act 1993.~~
- The company is a FMC Reporting Entity as defined by the Financial Markets Conduct Act 2013.
- The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.
- The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.<sup>10</sup>
- The financial position at year end is fairly presented.
- An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered appropriate in the circumstances.

#### INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited. [Appropriate Addressee]

#### Report on the Financial Statements<sup>11</sup>

We have audited the accompanying financial statements of ABC ~~Limited Company~~ on pages .... to ....., which comprise the ~~balance sheet~~statement of financial position as at December 31, 20X1, and the ~~income statement of comprehensive income~~, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

<sup>10</sup> If the possible effects, in the auditor's judgement, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim the opinion on the financial performance and cash flows.

<sup>11</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

### *Directors'<sup>12</sup> Responsibility for the Financial Statements*

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards<sup>13</sup> ~~and that give a true and fair view of the matters to which they relate~~, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>14</sup> of the financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>15</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position and our qualified audit opinion on the financial performance and cash flows.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited~~Company.

### *Basis for Qualified Opinion on the Financial Performance and Cash Flows*

We were appointed as auditors of the company on June 30, 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary

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<sup>12</sup> Or other term that is appropriate in the context of the legal framework.

<sup>13</sup> Where the directors' responsibility is to prepare financial statements that give a true and fair view, this may read, "The directors' are responsible for the preparation of financial statements that give a fair and true view in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such..."

<sup>14</sup> In the case of footnote 11, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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."

<sup>15</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements ~~that give a true and fair view of the matters to which they relate~~ in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 11, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

in respect of the profit for the year reported in the income statement and the net cash flows from operating activities reported in the cash flow statement.

*Qualified Opinion on the Financial Performance and Cash Flows*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, ~~the financial statements on pages .... to .....~~, the statement of comprehensive income and statement of cash flows present fairly, in all material respects (or give a true and fair view of), the financial performance and cash flows of ABC Company for the year ended December 31, 20X1 in accordance with New Zealand Equivalents to International Financial Reporting Standards.

- ~~• Comply with generally accepted accounting practice in New Zealand;~~
- ~~• Give a true and fair view of the financial performance and cash flows of ABC Limited for the year ended December 31, 20X1.~~

*Opinion on the Financial Position*

In our opinion, the statement of financial position presents fairly, in all material respects (or gives a true and fair view of), the financial statements on pages .... to ....., ~~give a true and fair view of the financial position of ABC Limited Company as at December 31, 20X1 in accordance with New Zealand Equivalents to International Financial Reporting Standards.~~

...

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• We have obtained all the information and explanations that we have required.~~
- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from an examination of those records.~~

## ISA (NZ) 570 *Going Concern*

A23. The following is an illustration of the relevant paragraphs when a qualified opinion is to be expressed:

### *Basis for Qualified Opinion ~~on Financial Position~~*

The Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not fully disclose this fact.

### *Qualified Opinion ~~on Financial Position~~*

In our opinion, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion paragraph ~~above~~, the financial statements ~~on pages .... to ....~~:

- ~~• comply with generally accepted accounting practice in New Zealand;~~
- present fairly, in all material respects (or "give a true and fair view of"), the financial position of the Company ABC Limited at December 31, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with ...

### *Opinion on Financial Performance and Cash Flows*

~~In our opinion the financial statements on pages .... to .... give a true and fair view of the results and cash flows of ABC Limited for the year ended December 31, 20X1.~~

A24. The following is an illustration of the relevant paragraphs when an adverse opinion is to be expressed:

### *Basis for Adverse Opinion on Financial Position*

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

### *Adverse Opinion ~~on Financial Position~~*

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion paragraph, the financial statements ~~on pages .... to ....~~:

- ~~• do not comply with generally accepted accounting practice in New Zealand;~~
- do not present fairly (or "give a true and fair view of") the financial position of the Company as at December 31, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with..

### *Opinion on Financial Performance and Cash Flows*

~~In our opinion the financial statements on pages .... to .... give a true and fair view of the results and cash flows of ABC Limited for the year ended on December 31, 20X1.~~

**[NZ] Appendix 2**

**Illustration of an Auditor’s Report that Includes an Emphasis of Matter Paragraph due to a Material Uncertainty regarding Going Concern**

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards, for a reporting entity as defined by the Financial Reporting Act 1993.**
- **The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.<sup>16</sup>**
- **There is uncertainty resulting from a net loss for the year and net liabilities exceeding net assets.**

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Limited [Appropriate Addressee]

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC Limited ~~Company~~ on pages .... to ...., which comprises the statement of financial position ~~balance sheet~~ as at 30 June 20X1, the ~~income statement of~~ comprehensive income, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors’ Responsibility for the Financial Statements*

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards<sup>17</sup> ~~and that give a true and fair of the matters to which they relate~~, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor’s Responsibility*

...

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements ~~that gives a true and fair view~~ 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. An audit also includes

<sup>16</sup> ISA (NZ) 210, “Agreeing the Terms of Audit Engagements.”

<sup>17</sup> Where the directors’ responsibility is to prepare financial statements that give a true and fair view, this may read, “The directors’ are responsible for the preparation of financial statements that give a fair and true view in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such...

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

...

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited~~Company.

#### *Opinion*

In our opinion the financial statements ~~on pages ... to ...~~ present fairly, in all material respects, *(or give a true and fair view of)* ~~the~~ comply with generally accepted accounting practice in New Zealand; give a true and fair view of the financial position of ABC ~~Limited~~Company as at June 30, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

...

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• We have obtained all the information and explanations that we have required.~~
- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.~~

#### **ISA (NZ) 600 Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)**

Amend the illustrative example auditor reports to reflect removal of parent entity reporting and updated terminology. New text is underlined and deleted text is struck through.

**Appendix 1**  
(Ref: Para. A19)

#### **Example of a Qualified Opinion Where the Group Engagement Team is Not Able to Obtain Sufficient Appropriate Audit Evidence on which to Base the Group Audit Opinion**

In this example, the group engagement team is unable to obtain sufficient appropriate audit evidence relating to a significant component ~~owned by a subsidiary and accounted for in the group financial statements~~ by the equity method (recognised at \$15 million in the ~~balance sheet~~statement of financial position, which reflects total assets of \$60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.

The group engagement team has read the audited financial statements of the component as of December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.

In the group engagement partner's judgement, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.



## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited [Appropriate Addressee]

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of ABC ~~Limited Company~~ and its subsidiaries, on pages ..... to ..... which comprise the consolidated ~~and separate balance sheets statement~~ of financial position of ABC Limited as at December 31, 20X1, and the consolidated ~~and separate~~ ~~income~~ statements of comprehensive income, statements of changes in equity and ~~statement of cash flows~~ statements for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Consolidated Financial Statements*

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards<sup>18</sup> and that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>19</sup> of the consolidated financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>20</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

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<sup>18</sup> Where the Directors' responsibility is to prepare consolidated financial statements that give a true and fair view, this may read, "The directors' are responsible for the preparation of consolidated financial statements that give a fair and true view in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such..."

<sup>19</sup> In the case of footnote 25, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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."

<sup>20</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 25, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ~~unmodified opinion on the separate financial statements and consolidated cash flows and our qualified audit opinion on the consolidated financial position and the consolidated financial performance.~~

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited Company~~ or any of its subsidiaries.

*Basis for Qualified Opinion on the Group Financial Position and Financial Performance*

ABC ~~Limited's Company's~~ investment in XYZ ~~Limited Company~~, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated ~~balance sheet statement of financial position~~ as at December 31, 20X1, and ABC's share of XYZ's net income of \$1 million is included in the consolidated ~~income statement~~ of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

*Qualified Opinion on the Group Financial Position and Financial Performance*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the ~~consolidated financial statements on pages .... to ....:~~

~~comply with generally accepted accounting practice in New Zealand; comply with International Financial Reporting Standards; present fairly, in all material respects (or give a true and fair view of) the financial position of ABC Limited Company group and its subsidiaries as at December 31, 20X1 and (of) their financial performance and cash flows of the group for the year then ended on that date in accordance with New Zealand Equivalents to International Financial Reporting Standards.~~

*Opinion on the Separate Financial Statements and the Group Cash Flows*

In our opinion, the financial statements on pages .... to .... ~~give a true and fair view of the financial position of ABC Limited as at December 31, 20X1 and its financial performance and the cash flows of ABC Limited and group for the year ended on that date.~~

**Report on Other Legal and Regulatory Requirements**

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.] In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• In the above respect alone we have not obtained all the information and explanations that we have required.~~
- ~~• In our opinion proper accounting records have been kept by the company as far as appears from our examination of those records.~~

~~[Add any matters required to be included under any other legislation or regulation.]~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

If, in the group engagement partner's judgement, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA (NZ) 705.

## Appendix 4

(Ref: Para. A35)

### Examples of a Component Auditor's Confirmations

The following is not intended to be a standard letter. Confirmations may vary from one component auditor to another and from one period to the next.

...

This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements present fairly, in all material respects (give a true and fair view of) the financial position of the group as of [date] and of its financial performance and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework].

....

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

#### Appendix 1

(Ref: Para. A14)

### Illustrations of Auditors' Reports on Financial Statements

- Illustration 1: ~~An entity not subject to the Financial Reporting Act 1993.~~ An auditor's report on financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards).
- NZ Illustration 1A2: A company, other than an exempt company. [Therefore subject to the Financial Reporting Act 1993.] An auditor's report on financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users in accordance with the appropriate financial reporting framework in New Zealand (for example Public Benefit Entity Standards).
- ~~Illustration 3: An exempt company as defined by the Financial Reporting Act 1993.~~
- NZ Illustration 24: An auditor's report on financial statements prepared in accordance with a compliance framework designed to meet the common financial information needs of a wide range of users; (for example, Public Benefit Entity Simple Format Reporting Standard - Cash (Public Sector) or Public Benefit Entity Simple Format Reporting Standard – Cash (Not-For-Profit)).
- Illustration 35: An auditor's report on consolidated financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, New Zealand Equivalents to International Financial Reporting Standards) for a reporting entity as defined by the Financial Reporting Act 1993.

**Illustration 1:**

**Circumstances include the following:**

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose in accordance with generally accepted accounting practice in New Zealand Equivalents to International Financial Reporting Standards.**
- ~~The entity is NOT subject to the Financial Reporting Act 1993 or any other legislation.~~
- **The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the ~~Beneficiaries of ABC Trust~~ [Appropriate Addressee]

**Report on the Financial Statements**<sup>21</sup>

We have audited the accompanying financial statements of ABC ~~Trust Company~~ on pages .... to ....., which comprise the ~~balance sheet statement of financial position~~ as at December 31, 20X1, and the ~~income statement of comprehensive income~~, statement of changes in equity ~~{and statement of cash flows statement}~~<sup>22</sup> for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' ~~Trustees~~*<sup>23</sup> *Responsibility for the Financial Statements*

The Directors' ~~trustees~~ are responsible for the preparation and fair presentation<sup>17</sup> of these financial statements in accordance with ~~generally accepted accounting practice in New Zealand Equivalents to International Financial Reporting Standards~~<sup>24</sup> and for such internal control as the Directors' ~~trustees~~ determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

<sup>21</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>22</sup> ~~If one is prepared.~~

<sup>23</sup> Or other term that is appropriate for the nature of the entity.

<sup>24</sup> Where the responsibility of those charged with governance is to prepare financial statements that give a true and fair view, this may read: "The Directors' ~~trustees~~ are responsible for the preparation of financial statements that give a true and fair view of the matters to which they relate and in accordance with generally accepted accounting practice in New Zealand Equivalents to International Financial Reporting Standards and for such..."

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>25</sup> of the financial statements 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.<sup>26</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Trust~~ Company.

#### *Opinion*

In our opinion, the financial statements ~~on pages .... to ....~~ present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company~~Trust~~ as at December 31, 20X1, and (of) its financial performance ~~and its cash flows~~<sup>27</sup> for the year then ended in accordance with ~~generally accepted accounting practice in~~ New Zealand Equivalents to International Financial Reporting Standards.

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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<sup>25</sup> In the case of footnote 4, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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."

<sup>26</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

<sup>27</sup> ~~If a cash flow statement is prepared.~~

**[NZ] Illustration 1A2:**

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose in accordance with the appropriate financial reporting framework in New Zealand (in this example Public Benefit Entity Standards) of a reporting entity (in this case a company) as defined by the Financial Reporting Act 1993.**
- **The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited [Appropriate Addressee]

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC Limited [entity] on pages .... to ....., which comprise the balance sheet statement of financial position as at December 31, 20X1, and the income statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

~~Directors' Responsibility for the Financial Statements~~ **The Responsibility of [Those Charged with Governance]<sup>28</sup> for the Financial Statements**

[Those charged with governance] ~~The directors~~ are responsible for the preparation and fair presentation<sup>29</sup> of financial statements in accordance with Public Benefit Entity Standards<sup>30</sup> issued in New Zealand by the New Zealand Accounting Standards Board generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as [those charged with governance] the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

<sup>28</sup> Use the term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>29</sup> Where the responsibility of those charged with governance is to prepare financial statements that give a true and fair view, this may read: "The Directors' are responsible for the preparation of financial statements that give a true and fair view of the matters to which they relate and in accordance with Public Benefit Entity Standards and for such..."

<sup>30</sup> The use of Public Benefit Entity Standards is for the purposes of illustration. The appropriate financial reporting standards to be applied by an entity will be determined by the tier structure established in standard XRB A1 Accounting Standards Framework. The Auditor's Report would identify one of the following:

- New Zealand Equivalents to International Financial Reporting Standards. (This may also include compliance with International Financial Reporting Standards).
- New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime
- Public Benefit Entity Standards
- Public Benefit Entity Standards Reduced Disclosure Regime
- Public Benefit Entity Simple Format Reporting Standard – Accrual (Public Sector)
- Public Benefit Entity Simple Format Reporting Standard – Accrual (Not-For-Profit).

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>31</sup> of the financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>32</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

### *Opinion*

In our opinion, the financial statements ~~on pages .... to ....~~ present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC 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.

- ~~• comply with generally accepted accounting practice in New Zealand;<sup>33</sup>~~
- ~~• give a true and fair view of the financial position of ABC Limited as at December 31, 20X1 and its financial performance and its cash flows for the year ended on that date.~~

### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

In accordance with the Financial Reporting Act 1993, we report that:

- ~~• We have obtained all the information and explanations that we have required.~~
- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from an examination of those records.~~

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<sup>31</sup> In the case of footnote 10, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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."

<sup>32</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

<sup>33</sup> May also include: comply with International Financial Reporting Standards, if appropriate.

~~[Add any matters required to be included under any other legislation or regulation.]~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]



**Illustration 3:**

**Circumstances include the following:**

- ~~Audit of a complete set of financial statements of an exempt company as defined by the Financial Reporting Act 1993.~~
- ~~The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.~~

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Limited

**Report on the Financial Statements**

We have audited the financial statements of ABC Limited on pages .... to ....., which comprise the balance sheet as at December 31, 20X1, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' Responsibility for the Financial Statements*

The directors are responsible for the preparation of these financial statements in accordance with the Financial Reporting Order 1994 and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand).<sup>34</sup> Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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.<sup>35</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

<sup>34</sup> The auditor may also claim compliance with International Standards on Auditing.

<sup>35</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances."

~~Other than in our capacity as auditor we have no relationship with, or interests in, ABC Limited.~~

*~~Opinion~~*

~~In our opinion, the financial statements on pages .... to .... are prepared, in all material respects, in accordance with the Financial Reporting Order 1994.~~

**~~Report on Other Legal and Regulatory Requirements~~**

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• We have obtained all the information and explanations that we have required.~~
- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from an examination of those records.~~

~~{Add any matters required to be included under any other legislation or regulation.}~~

~~{Auditor's signature}~~

~~{Date of the auditor's report}~~

~~{Auditor's address}~~

**NZ Illustration 24:**

**Circumstances include the following:**

- **Audit of a ~~complete set of financial statements required by law or regulation~~ performance report.**
- **The performance report is ~~financial statements~~ prepared for a general purpose by the entity in accordance with a compliance framework - in this example Public Benefit Entity Simple Format Reporting Standard – Cash (Not-For-Profit).**
- **The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the performance report ~~financial statements~~ in ISA (NZ) 210.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements ~~performance report~~ of ABC [entity] ~~on pages .... to .....~~, which comprise the ~~balance sheet~~ entity information, statement of service performance, statement of receipts and payments, statement of resources and commitments, and notes as for the year ended at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

**The Responsibility of [Those Charged with Governance]<sup>36</sup> for the Performance Report ~~Financial Statements~~**

[Those charged with governance] are responsible for the preparation of these ~~financial statements~~ performance report in accordance with ~~XYZ Law of Jurisdiction X~~ the Public Benefit Entity Simple Format Reporting Standard – Cash (Not-For-Profit)<sup>37</sup> and for such internal control as [those charged with governance] determine is necessary to enable the preparation of the performance report ~~financial statements~~ that ~~is~~ are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the performance report ~~these financial statements~~ based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand).<sup>38</sup> Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the performance report ~~financial statements~~ is ~~are~~ free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the ~~financial statement~~ performance reports. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the performance report ~~financial statements~~, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the ~~financial statements~~ performance report in order to design audit procedures that are appropriate in the circumstances,

<sup>36</sup> Use the term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>37</sup> The use of Public Benefit Entity Simple Format Reporting Standard – Cash (Not-For-Profit) is for the purposes of illustration. The general purpose compliance frameworks in New Zealand comprise the Public Benefit Entity Simple Format Reporting Standard – Cash (Public Sector) and the Public Benefit Entity Simple Format Reporting Standard – Cash (Not-For-Profit).

<sup>38</sup> The auditor may also claim compliance with International Standards on Auditing.

but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>39</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates as well as evaluating the presentation of the ~~financial statements~~ performance report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

### **Opinion**

In our opinion, the ~~financial statements~~ performance reports of ABC [entity] ~~on pages .... to ....~~ for the year ended December 31, 20X1 ~~is~~ are prepared, in all material respects, in accordance with ~~XYZ Law of Jurisdiction X~~ the Public Benefit Entity Simple Format Reporting Standard – Cash (Not-For-Profit).

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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<sup>39</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the performance report ~~financial statements~~, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the ~~financial statements~~ performance report in order to design audit procedures that are appropriate in the circumstances."

**Illustration 35:**

Circumstances include the following:

- **Audit of consolidated financial statements prepared for a general purpose in accordance with New Zealand Equivalents to International Financial Reporting Standards**~~sa reporting entity as defined by the Financial Reporting Act 1993.~~
- **The terms of the group audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**
- **In addition to the audit of the group financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited [Appropriate Addressee]

**Report on the Consolidated Financial Statements**<sup>40</sup>

We have audited the accompanying consolidated financial statements of ABC ~~Limited Company~~ and ~~group~~ its subsidiaries on pages ... to ..., which comprise the consolidated ~~and separate balance sheets~~ statement of financial position of ABC Limited as at December 31, 20X1, the consolidated ~~and separate income~~ statements of comprehensive income, statements of changes in equity and statement of cash flows ~~statements~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' Responsibility for the Consolidated Financial Statements*

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with ~~generally accepted accounting practice in~~ New Zealand Equivalents to International Financial Reporting Standards<sup>41</sup> ~~and that give a true and fair view of the matters to which they relate~~ and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand).<sup>42</sup> Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or

<sup>40</sup> The sub-title "Report on the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>41</sup> Where the responsibility of those charged with governance is to prepare financial statements that give a true and fair view, this may read: "The directors' are responsible for the preparation of consolidated financial statements that give a true and fair view of the matters to which they relate and in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such..."

<sup>42</sup> The auditor may also claim compliance with International Standards on Auditing.

error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>43</sup> of the consolidated financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>44</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited Company~~ or any of its subsidiaries.

### *Opinion*

In our opinion, the consolidated financial statements ~~on pages .... to ....~~:

~~comply with generally accepted accounting practice in New Zealand;~~

- ~~• comply with International Financial Reporting Standards;~~
- present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC Limited Company and the its subsidiaries group as at December 31, 20X1, and (of) their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities].

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• We have obtained all the information and explanations we have required.~~
- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.~~

[Add any matters required to be included under any other legislation or regulation.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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<sup>43</sup> In the case of footnote 22, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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."

<sup>44</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

## **ISA (NZ) 705 Modifications to the Opinion in the Independent Auditor's Report**

### **Appendix**

(Ref: Para. A23-24)

#### **Illustrations of Auditors' Reports with Modifications to the Opinion**

- Illustration 1: An auditor's report ~~for a reporting entity as defined in the Financial Reporting Act 1993~~ containing a qualified opinion due to a material misstatement of the financial statements.
- Illustration 2: An auditor's report ~~for a reporting entity as defined in the Financial Reporting Act 1993~~ containing an adverse opinion due to a material misstatement of the financial statements.
- Illustration 3: An auditor's report ~~for a reporting entity as defined in the Financial Reporting Act 1993~~ containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence.
- Illustration 4: An auditor's report ~~for a reporting entity as defined in the Financial Reporting Act 1993~~ containing a disclaimer of opinion 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 ~~for a reporting entity as defined in the Financial Reporting Act 1993~~ containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.
- ~~Illustration 6: An auditor's report for a reporting entity as defined in the Financial Reporting Act 1993 containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about any element of the financial statements.~~

**Illustration 1:**

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements of a reporting entity as defined by the Financial Reporting Act 1993 prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards.**
- The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.<sup>45</sup>
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements.
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited [Appropriate Addressee]

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC ~~Limited Company~~ on pages .... to ....., which comprise the ~~balance sheet~~ statement of financial position as at December 31, 20X1, and the ~~income statement of comprehensive income~~, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards <sup>46</sup> ~~and that give a true and fair view of the matters to which they relate~~, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the

<sup>45</sup> ISA (NZ) 210, "Agreeing the Terms of Audit Engagements."

<sup>46</sup> Where the directors' responsibility is to prepare financial statements that give a fair and true view, this may read: "The directors' are responsible for the preparation of financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such..."



auditor considers internal control relevant to the entity's preparation and fair presentation<sup>47</sup> of the financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>48</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ~~unmodified opinion on cash flows and our qualified audit opinion on financial position and financial performance.~~

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited~~Company.

#### *Basis for Qualified Opinion ~~on Financial Position and Financial Performance~~*

The company's inventories are carried in the ~~balance sheet~~statement of financial position at xxx. The Directors have not stated the inventories at the lower of cost and net realisable value but have stated them solely at cost, which constitutes a departure from the New Zealand Equivalents to International Financial Reporting Standards. The company's records indicate that had the directors stated the inventories at the lower of cost and net realisable value, an amount of xxx would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

#### *Qualified Opinion ~~on Financial Position and Financial Performance~~*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph the financial statements ~~on pages .... to ....:~~

~~comply with generally accepted accounting practice in New Zealand;~~

present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC Limited Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

#### *Opinion on Cash Flows*

~~In our opinion, the financial statements on pages .... to .... give a true and fair view of cash flows of ABC Limited for the year ended December 31, 20X1.~~

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.] In accordance with the Financial Reporting Act 1993, we report that:

- ~~• We have obtained all the information and explanations that we have required.~~

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<sup>47</sup> In the case of footnote 12, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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."

<sup>48</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from an examination of those records.~~

~~{Add any matters required to be included under any other legislation or regulation.}~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Illustration 2:**

Circumstances include the following:

- **Audit of consolidated general purpose financial statements prepared for a reporting entity as defined by the Financial Reporting Act 1993 in accordance with New Zealand Equivalents to International Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210**
- **The financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited [Appropriate Addressee]

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of ABC ~~Limited Company~~ and ~~groups~~ subsidiaries, on pages .... to ..... which comprise the consolidated ~~and separate balance sheets~~ statement of financial position of ABC Limited as at December 31, 20X1, the consolidated ~~and separate income~~ statements of comprehensive income, statements of changes in equity and statement of cash flows ~~statements~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' Responsibility for the Consolidated Financial Statements*

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards <sup>49</sup> ~~and that give a true and fair view of the matters to which they relate~~, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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<sup>49</sup> Where the directors' responsibility is to prepare consolidated financial statements that give a true and fair view, this may read: "The directors' are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such...."

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>50</sup> of the consolidated financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>51</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for ~~our unmodified opinion on the separate financial statements of ABC Limited and our adverse audit opinion on the consolidated financial statements.~~

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited Company~~ or any of its subsidiaries.

#### *Basis for Adverse Opinion ~~on the Group Financial Statements~~*

As explained in Note X, the company has not consolidated the financial statements of subsidiary XYZ Company it acquired during 20X1 because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under the New Zealand Equivalents to International Financial Reporting Standards, the subsidiary should have been consolidated because it is controlled by the company. Had XYZ been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

#### *Adverse Opinion ~~on the Group Financial Statements~~*

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the ~~group consolidated~~ financial statements ~~on pages .... to .....~~:

~~do not comply with generally accepted accounting practice in New Zealand;~~

~~present fairly (or do not give a true and fair view of) the financial position of ABC Limited Company group and its subsidiaries as at December 31, 20X1, and (of) their financial performance and their cash flows of the group for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.~~

#### *Opinion on ABC Limited Separate Financial Statements*

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<sup>50</sup> In the case of footnote 16, this may read: "In making those risk assessment, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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."

<sup>51</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 17, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

~~In our opinion, the financial statements on pages .... to .... give a true and fair view of the financial position of ABC Limited as at December 31, 20X1, and its financial performance and cash flows for the year ended on that date.~~

### **Report on Other Legal and Regulatory Requirements**

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• In the above respect alone we have not obtained all the information and explanations we have required.~~
- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.~~

~~[Add any matters required to be included under any other legislation or regulation.]~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Illustration 3:**

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements for a reporting entity as defined by the Financial Reporting Act 1993 prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**
- **The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited [Appropriate Addressee]

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC ~~Limited Company~~ on pages .... to ....., which comprise the ~~balance sheet~~ statement of financial position as at December 31, 20X1, and the ~~income~~ statement of comprehensive income, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting practice in New Zealand Equivalents to International Financial Reporting Standards<sup>52</sup> and that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the

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<sup>52</sup> Where the directors' responsibility is to prepare financial statements that give a true and fair view, this may read: "The directors' are responsible for the preparation of financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such..."

auditor considers internal control relevant to the entity's preparation and fair presentation<sup>53</sup> of the financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>54</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ~~unmodified opinion on cash flows and our qualified audit opinion on financial position and financial performance.~~

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited~~Company.

#### *Basis for Qualified Opinion ~~on Financial Position and Financial Performance~~*

ABC ~~Limited's~~Company's investment in XYZ ~~Limited~~Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the ~~balance sheet~~statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

#### *Qualified Opinion ~~on Financial Position and Financial Performance~~*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements ~~on pages .... to .....~~

~~Comply with generally accepted accounting practice in New Zealand;~~

~~—present fairly, in all material respects, (or *Give a true and fair view of*) the financial position of ABC Limited Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.~~

#### *Opinion on Cash Flows*

~~In our opinion, the financial statements on pages .... to .... give a true and fair view of the cash flows of ABC Limited for the year ended December 31, 20X1.~~

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

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<sup>53</sup> In the case of footnote 20, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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."

<sup>54</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 22, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• In the above respect alone we have not obtained all the information and explanations that we have required.~~
- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.~~

~~[Add any matters required to be included under any other legislation or regulation.]~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Illustration 4:**

**Circumstances include the following:**

- Audit of a complete set of general purpose financial statements for a reporting entity as defined by the Financial Reporting Act 1993 prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards.**
- The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the company's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.**
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

~~To the Shareholders of ABC Limited~~ [Appropriate Addressee]

**Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of ABC Limited Company on pages .... to ....., which comprise the ~~balance sheet~~ statement of financial position as at December 31, 20X1, and the ~~income~~ statement of comprehensive income, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.



### *Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting practice in New Zealand Equivalents to International Financial Reporting Standards<sup>55</sup> ~~and that give a true and fair view of the matters to which they relate~~, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing (New Zealand). Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company Limited.

### *Basis for Disclaimer of Opinion*

~~An audit would ordinarily involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected would ordinarily depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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.~~<sup>56</sup>

The company's investment in its joint venture XYZ (Country X) ~~Limited Company~~ is carried at xxx on the company's balance sheet statement of financial position, which represents over 90% of the company's net assets as at December 31, 20X1. We were not allowed access to the management and the auditors of XYZ, including XYZ's auditors' audit documentation. As a result, the scope of our audit was limited and we were unable to undertake adequate audit procedures in respect of that aspect of this audit. We were unable to determine whether any adjustments were necessary in respect of the company's proportional share of XYZ's assets that it controls jointly, its proportional share of XYZ's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the statement of changes in equity and cash flow statement.

### *Disclaimer of Opinion*

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements on pages .... to .....

## **Report on Other Legal and Regulatory Requirements**

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<sup>55</sup> ~~Where the directors' responsibility is to prepare financial statements that give a true and fair view, this may read: "The directors' are responsible for the preparation of the financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such..."~~

<sup>56</sup> ~~In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."~~

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

In accordance with the Financial Reporting Act 1993, we report that:

- ~~• As noted above we have not received all the information and explanations we have required.~~
- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.~~

~~[Add any matters required to be included under any other legislation or regulation.]~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Illustration 5:**

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements for a reporting entity as defined by the Financial Reporting Act 1993 prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**
- **The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

~~To the Shareholders of ABC Limited~~ [Appropriate Addressee]

**Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of ABC Limited Company on pages .... to ...., which comprise the statement of financial position balance sheet as at December 31, 20X1, and the income statement of comprehensive income, statement of changes in equity and statement of cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation and fair presentation of financial statements in accordance with generally accepted accounting practice in New Zealand Equivalents to International Financial Reporting Standards<sup>57</sup> ~~and that give a true and fair view of the matters to which they relate~~, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing (New Zealand). Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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<sup>57</sup> Where the Directors' responsibility is to prepare financial statements that give a true and fair view, this may read: "The directors' are responsible for the preparation of the financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such..."

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited~~Company.

#### *Basis for Disclaimer of Opinion*

~~An audit would ordinarily involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected would ordinarily depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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.~~<sup>58</sup>

We were not appointed as auditors of the company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1 which are stated in the ~~balance sheet~~statement of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerised accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our audit report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the ~~balance sheet~~statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, the scope of our audit was limited and we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the ~~income~~statement of comprehensive income, statement of changes in equity and statement of cash flows~~statement~~.

#### *Disclaimer of Opinion*

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements ~~on pages .... to .....~~

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

In accordance with the Financial Reporting Act 1993, we report that:

- ~~• As noted above we have not received all the information and explanations that we have required.~~
- ~~• Because of the items noted above we are unable to determine whether proper accounting records have been kept by ABC Limited.~~

~~[Add any matters required to be included under any other legislation or regulation.]~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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<sup>58</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

**Illustration 6:**

**Circumstances include the following:**

- ~~Audit of a complete set of general purpose financial statements for a reporting entity as defined by the Financial Reporting Act 1993.~~
- ~~The terms of the audit engagement reflect the description of responsibility of those charged with governance for the financial statements in ISA (NZ) 210.~~
- ~~The auditor was unable to obtain sufficient appropriate audit evidence as a consequence of a fire at head office which destroyed many of the accounting records. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.~~

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Limited

**Report on the Financial Statements**

We were engaged to audit the financial statements of ABC Limited on pages .... to ....., which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' Responsibility for the Financial Statements*

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing (New Zealand). Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Limited.

*Basis for Disclaimer of Opinion*

An audit would ordinarily involve performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected would ordinarily depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor would ordinarily consider internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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.~~<sup>59</sup>

~~We were unable to access many of the accounting records as a consequence of a fire at the company's head office which destroyed many of the accounting records. The financial report consequentially includes a number of material amounts based on estimates. However, we were unable to undertake any audit procedures on these estimates.~~

*Disclaimer of Opinion*

~~Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements on pages .... to .....~~

**Report on Other Legal and Regulatory Requirements**

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• As noted above we have not received all the information and explanations that we have required.~~
- ~~• Because of the items noted above we are unable to determine whether proper accounting records have been kept by ABC Limited.~~

~~[Add any matters required to be included under any other legislation or regulation.]~~

~~[Auditor's signature]~~

~~[Date of the auditor's report]~~

~~[Auditor's address]~~

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<sup>59</sup>—In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

## **ISA (NZ) 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report***

Appendix 3

(Ref: Para. A4)

### **Illustration of an Auditor's Report that Includes an Emphasis of Matter Paragraph**

Circumstances include the following:

- **Audit of a complete set of general purpose financial statements ~~for a reporting entity as defined by the Financial Reporting Act 1993~~ prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards.**
- **The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**<sup>60</sup>
- **There is uncertainty relating to a pending exceptional litigation matter.**
- **A departure from the applicable financial reporting framework resulted in a qualified opinion.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

#### INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited [Appropriate Addressee]

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of ABC Limited ~~Company~~ on pages .... to ....., which comprise the ~~balance sheet~~ statement of financial position as at December 31, 20X1, and the ~~income~~ statement of comprehensive income, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation and fair presentation of financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards<sup>61</sup> and that give a true and fair view of the matters to which they relate, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

<sup>60</sup> ISA (NZ) 210, "Agreeing the Terms of Audit Engagements."

<sup>61</sup> Where the Directors' responsibility is to prepare financial statements that give a true and fair view, this may read: "The directors' are responsible for the preparation of the financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such..."

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>62</sup> of financial statements ~~that give a true and fair view~~ 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.<sup>63</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our ~~unmodified opinion on the cash flows and our qualified audit opinion on the financial position and financial performance.~~

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited~~ Company.

### *Basis for Qualified Opinion ~~on Financial Position and Financial Performance~~*

The company's short-term marketable securities are carried in the ~~balance sheet~~ statement of financial position at xxx. The entity has not marked these securities to market but has instead stated them at cost, which constitutes a departure from New Zealand Equivalents to International Financial Reporting Standards. The company's records indicate that had the entity marked the marketable securities to market, the company would have recognised an unrealised loss of xxx in the ~~income~~ statement of comprehensive income for the year. The carrying amount of the securities in the ~~balance sheet~~ statement of financial position would have been reduced by the same amount at December 31, 20X1, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

### *Qualified Opinion ~~on Financial Position and Financial Performance~~*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements ~~on pages .... to ....:~~

~~comply with generally accepted accounting practice in New Zealand;~~

present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC ~~Limited~~ Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

<sup>62</sup> In the case of footnote 6, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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."

<sup>63</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 6, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."



*~~Opinion on Cash Flows~~*

~~In our opinion the financial statements on pages .... to .... give a true and fair view of the cash flows of ABC Limited for the year ended December 31, 20X1.~~

*Emphasis of Matter*

We draw attention to Note X to the financial statements which describes the uncertainty<sup>64</sup> related to the outcome of the lawsuit filed against the company by XYZ ~~Limited Company~~. Our opinion is not qualified in respect of this matter.

**Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• We have obtained all the information and explanations that we have required.~~
- In our opinion proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.

~~[Add any matters required to be included under any other legislation or regulation.]~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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<sup>64</sup> In highlighting the uncertainty, the auditor uses the same terminology that is used in the note to the financial statements.

## **ISA (NZ) 710 Comparative Information – Corresponding Figures and Comparative Financial Statements**

### **Appendix**

#### **Illustrations of Auditors' Reports**

##### **Illustration 1 - Corresponding Figures (Ref: Para. A5)**

**Report illustrative of the circumstances described in paragraph 11(a), as follows:**

- ~~• The company is a reporting entity as defined by the Financial Reporting Act 1993.~~
- The auditor's report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period's figures are material and require a modification to the auditor's opinion regarding the current period figures.

#### **INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Limited [Appropriate Addressee]

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of ABC ~~Limited Company~~ on pages .... to ...., which comprise the statement of financial position balance sheet as at December 31, 20X1, and the ~~income~~ statement of comprehensive income, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards <sup>65</sup> ~~and that give a true and fair view of the matters to which they relate~~, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the

<sup>65</sup> Where the directors' responsibility is to prepare financial statements that give a true and fair view, this may read: "The directors' are responsible for the preparation of financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such..."

auditor considers internal control relevant to the entity's preparation and fair presentation<sup>66</sup> of the financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>67</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ~~unmodified opinion on cash flows and our qualified audit opinion on the financial position and financial performance.~~

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited~~ Company.

#### *Basis for Qualified Opinion ~~on the Financial Position and Financial Performance~~*

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from New Zealand Equivalents to International Financial Reporting Standards. This is the result of a decision taken by the directors at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

#### *Qualified Opinion ~~on the Financial Position and Financial Performance~~*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements ~~on pages .... to ....~~

~~comply with generally accepted accounting practice in New Zealand; and~~  
present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC Limited Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

#### *Opinion on Cash Flows*

In our opinion, the financial statements on pages .... to .... give a true and fair view of the cash flows of ABC Limited for the year ended December 31, 20X1.

### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

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<sup>66</sup> In the case of footnote 9, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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."

<sup>67</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements ~~that give a true and fair view of the matters to which they relate~~ in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 9, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• We have obtained all the information and explanations that we have required.~~
- ~~• In our opinion, proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.~~

~~{Add any matters required to be included under any other legislation or regulation.}~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Illustration 2 - Corresponding Figures** (Ref: Para. A5)

**Report illustrative of the circumstances described in paragraph 11(b), as follows:**

- ~~The company is a reporting entity as defined by the Financial Reporting Act 1993.~~
- **The auditor’s report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period’s figures are immaterial but require a modification to the auditor’s opinion because of the effects or possible effects of the unresolved matter on the comparability of the current period’s figures and the corresponding figures.**

**INDEPENDENT AUDITOR’S REPORT**

To the Shareholders of ABC Limited [Appropriate Addressee]

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC ~~Limited Company~~ on pages .... to ....., which comprise the statement of financial position ~~balance sheet~~ as at December 31, 20X1, and the ~~income~~ statement of comprehensive income, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors’ Responsibility for the Financial Statements*

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards<sup>68</sup> ~~and that give a true and fair view of the matters to which they relate~~, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor’s Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making <sup>69</sup> those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements ~~that give a true and fair view of the matters to which they relate~~ 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

<sup>68</sup> Where the directors’ responsibility is to prepare financial statements that give a true and fair view, this may read: “The directors’ are responsible for the preparation of financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such...”

<sup>69</sup> In the case of footnote 13, this may read: “In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of financial statements that give a true and fair view 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.”

internal control.<sup>70</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our ~~unmodified opinion on cash flows and our qualified audit opinion on financial position and financial performance.~~

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited Company.~~

#### *Basis for Qualified Opinion ~~on Financial Position and Financial Performance~~*

Because we were appointed auditors of ABC ~~Limited Company~~ during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 20X0. Our audit opinion on the financial statements for the period ended 31 December, 20X0 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

#### *Qualified Opinion ~~on Financial Position and Financial Performance~~*

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion paragraph, the financial statements ~~on pages .... to .....~~ comply with generally accepted accounting practice in New Zealand; and present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC Limited Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

#### *Opinion on Cash Flows*

~~In our opinion, the financial statements on pages .... to .... give a true and fair view of the cash flows of ABC Limited for the year ended December 31, 20X1.~~

### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• In the above respect alone we have not obtained all the information and explanations we have required.~~
- ~~• In our opinion, proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.~~

~~[Add any matters required to be included under any other legislation or regulation.]~~

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<sup>70</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements ~~that give a true and fair view of the matters to which they relate~~ in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 13, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

**Illustration 3 - Corresponding Figures:** (Ref: Para. A7)

**Report illustrative of the circumstances described in paragraph 13, as follows:**

- ~~• The company is a reporting entity as defined by the Financial Reporting Act 1993.~~
- **The prior period's financial statements were audited by a predecessor auditor.**
- **The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and decides to do so.**

INDEPENDENT AUDITOR'S REPORT

~~To the Shareholders of ABC Limited~~[Appropriate Addressee]

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC ~~Limited Company~~ on pages .... to ....., which comprise the statement of financial position ~~balance sheet~~ as at December 31, 20X1, and the ~~income~~ statement of comprehensive income, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards<sup>71</sup> ~~and that give a true and fair view of the matters to which they relate~~, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>72</sup> of financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>73</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

<sup>71</sup> Where the directors' responsibility is to prepare financial statements that give a true and fair view, this may read: "The directors' are responsible for the preparation of financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such..."

<sup>72</sup> In the case of footnote 17, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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."

<sup>73</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC ~~Limited~~Company.

#### *Opinion*

In our opinion, the financial statements ~~on pages .... to ....~~  
comply with ~~generally accepted accounting practice in New Zealand; and~~

~~—~~ present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC ~~Limited~~Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended.

#### *Other Matter*

The financial statements of ABC ~~Limited~~Company for the year ended December 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• We have received all the information and explanations we have required.~~
- ~~• In our opinion proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.~~

~~[Add any matters required to be included under any other legislation or regulation.]~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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considers internal control relevant to the entity's preparation and fair presentation of the financial statements ~~that give a true and fair view of the matters to which they relate~~ in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 17, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

**Illustration 4 - Comparative Financial Statements:** (Ref: Para. A9)

**Report illustrative of the circumstances described in paragraph 15, as follows:**

~~• The company is a reporting entity as defined by the Financial Reporting Act 1993.~~

- Auditor is required to report on both the current period financial statements and the prior period financial statements in connection with the current year's audit.
- The auditor's report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period's figures are material to both the current period financial statements and prior period financial statements and require a modification to the auditor's opinion.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited [Appropriate Addressee]

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC ~~Limited Company~~ on pages .... to ....., which comprise the statements of financial position ~~balance sheets~~ as at December 31, 20X1 and 20X0, and the ~~income~~ statements of comprehensive income, statements of changes in equity and statements of cash flows ~~statements~~ for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Directors<sup>74</sup> Responsibility for the Financial Statements*

The Directors are responsible for the preparation of financial statements in accordance with ~~generally accepted accounting practice in New Zealand~~ Equivalents to International Financial Reporting Standards<sup>75</sup> ~~and that give a true and fair view of the matters to which they relate~~, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the

<sup>74</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

<sup>75</sup> Where the directors' responsibility is to prepare financial statements that give a true and fair view, this may read: "The directors' are responsible for the preparation of financial statements that give a true and fair view in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such..."

auditor considers internal control relevant to the entity's preparation and fair presentation<sup>76</sup> of financial statements ~~that give a true and fair view of the matters to which they relate~~ 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.<sup>77</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our ~~unmodified opinion on cash flows and our qualified audit opinion on the financial position and financial performance.~~

Other than in our capacity as auditor, we have no relationship with, or interest in, ABC ~~Limited~~Company.

#### *Basis for Qualified Opinion ~~on Financial Position and Financial Performance~~*

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from New Zealand Equivalents to International Financial Reporting Standards. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

#### *Qualified Opinion ~~on Financial Position and Financial Performance~~*

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements ~~on pages .... to ....:~~

~~comply with generally accepted accounting practice in New Zealand; and~~

~~—present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC Limited Company as at December 31, 20X1 and 20X0 and (of) its financial performance for the years then ended.~~

#### *Opinion on Cash Flows*

~~In our opinion, the financial statements on pages .... to .... give a true and fair view of the cash flows of ABC Limited for the years ended on December 20X1 and 20X0.~~

#### **Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

~~In accordance with the Financial Reporting Act 1993, we report that:~~

- ~~• We have obtained the information and explanations that we have required.~~

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<sup>76</sup> In the case of footnote 21, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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."

<sup>77</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

- ~~• In our opinion, proper accounting records have been kept by ABC Limited as far as appears from an examination of those records.~~

~~{Add any matters required to be included under any other legislation or regulation.}~~

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

## **ISA (NZ) 805 *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement***

Amend Appendix 2. New text is underlined and deleted text is struck through.

### Appendix 2

#### **Illustration 1:**

Circumstances include the following:

- **Audit of a statement of financial position~~balance sheet~~ (that is, a single financial statement).**
- **The statement of financial position~~balance sheet~~ has been prepared by management of the entity in accordance with the requirements of the appropriate set of accounting standards issued by the New Zealand Accounting Standards Board ~~generally accepted accounting practice in New Zealand~~ relevant to preparing a statement of financial position~~balance sheet~~.**
- ...

#### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying statement of financial position~~balance sheet~~ of ABC Company Limited as at December 31, 20X1 and a summary of significant accounting policies and other explanatory information (together "the financial statement").

#### **Directors' Responsibility for the Financial Statement**

The directors are responsible for the preparation and fair presentation of this financial statement in accordance with those requirements of [the appropriate set of accounting standards issued by the New Zealand Accounting Standards Board ~~generally accepted accounting practice in New Zealand~~] relevant to preparing such a financial statement and for such internal control as the directors determine is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

...

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company Limited.

#### **Opinion**

In our opinion, the financial statement presents fairly, in all material respects, the financial position of ABC Company Limited as at December 31, 20X1 in accordance with those requirements of [the appropriate set of accounting standards issued by the New Zealand Accounting Standards Board] ~~generally accepted accounting practice in New Zealand~~ relevant to preparing such a financial statement.

...

**Illustration 2:**

**Circumstances include the following:**

- **Audit of a statement of cash receipts and disbursements (that is, a single financial statement).**
- **The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. Management has a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.<sup>78</sup>**
- **The auditor has determined that it is appropriate to use the phrase “presents fairly, in all material respects,” in the auditor’s opinion.**
- **Distribution or use of the auditor’s report is not restricted.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

We have audited the accompanying statement of cash receipts and disbursements of ABC Company Limited for the year ended December 31, 20X1 and a summary of significant accounting policies and other explanatory information (together “the financial statement”). The financial statement has been prepared by management using the cash receipts and disbursements basis of accounting described in Note X.

...

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company Limited.

**Opinion**

In our opinion, the financial statement presents fairly, in all material respects, the cash receipts and disbursements of ABC Company Limited for the year ended December 31, 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

**Basis of Accounting**

Without modifying our opinion, we draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the statement may not be suitable for another purpose.

...

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<sup>78</sup> ISA (NZ) 800 contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

**Illustration 3:**

**Circumstances include the following:**

- **Audit of the liability for “incurred but not reported” claims in an insurance portfolio (that is, element, account or item of a financial statement).**
- **The financial information has been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a compliance framework designed to meet the financial information needs of specific users.<sup>79</sup>**
- **The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**
- **Distribution of the auditor’s report is restricted.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

We have audited the accompanying schedule of the liability for “incurred but not reported” claims of ABC Insurance Company Limited as at December 31, 20X1 (“the schedule”). The schedule has been prepared by management based on [describe the financial reporting provisions established by the regulator].

...

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Insurance Company Limited.

**Opinion**

In our opinion, the financial information in the schedule of the liability for “incurred but not reported” claims of ABC Insurance Company Limited as at December 31, 20X1 is prepared, in all material respects, in accordance with [describe the financial reporting provisions established by the regulator].

**Basis of Accounting and Restriction on Distribution**

Without modifying our opinion, we draw attention to Note X to the schedule, which describes the basis of accounting. The schedule is prepared to assist ABC Insurance Company Limited to meet the requirements of Regulator DEF. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for ABC Insurance Company Limited and Regulator DEF and should not be distributed to parties other than ABC Insurance Company Limited or Regulator DEF.

...

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<sup>79</sup> ISA (NZ) 800 contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

## **Effective Date**

The amendments in this Standard shall apply for audit or assurance engagements relating to financial statements prepared for periods beginning on or after 1 April 2014.