

AMENDMENTS TO AUDITING AND ASSURANCE STANDARDS: OMNIBUS AMENDMENTS (LEGISLATIVE UPDATE)

Explanation of Decisions made by the NZAuASB in Finalising the Amendments to Auditing and Assurance Standards: Omnibus Amendments (Legislative Update)

Issued February 2014

This document relates to, but does not form part of *Amendments to Auditing and Assurance Standards (Legislative Update)* which was approved by the NZAuASB in February 2014. It summarises the changes made by the NZAuASB to the International Standards on Auditing (ISAs) and provides the compelling reasoning as to why the changes were made. It also summarises the major issues raised by respondents to Exposure draft *Amendments to Auditing and Assurance Standards (Legislative Update)*, and how the NZAuASB has addressed them.

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AMENDMENTS (LEGISLATIVE UPDATE)**

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BACKGROUND

1. In October 2013, the New Zealand Auditing and Assurance Standards Board (NZAuASB) issued an exposure draft on Amendments to Auditing and Assurance Standards: Omnibus Amendments (Legislative Update) (the ED).
2. This Explanation of Decisions document summarises the changes made by the NZAuASB to the International Standards on Auditing (ISAs) and provides the compelling reasoning as to why the changes were made. It also summarises the major issues raised by respondents to Exposure draft *Amendments to Auditing and Assurance Standards (Legislative Update)* (the ED), and how the NZAuASB has addressed them.
3. Amendments to Auditing and Assurance Standards: Omnibus Amendments (Legislative Update) was issued in February 2014. The standard is an amending standard affecting numerous auditing and assurance standards on issue as at 1 April 2014 including:
 - a. the auditing standards, that is, International Standards on Auditing (New Zealand)(ISAs (NZ));
 - b. the professional and ethical standards, that is, Professional and Ethical Standards (PESs); and
 - c. the other assurance standard, Standard on Assurance Engagement (SAE) 3100.
4. The purpose of the amending standard is to:
 - a. amend the auditing and assurance standards to take account of the legislative changes contained in the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013;
 - b. amend the auditing and assurance standards to reflect the adoption of the new multi-standards accounting framework ; and
 - c. amend the auditing and assurance standards for miscellaneous other changes, for example to terminology.
5. The NZAuASB has applied its Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board and Harmonisation with the standards of the Australian Auditing and Assurance Standards Board in the development of the amending standard for application in New Zealand, that is, only including additional requirements to the international requirements where there are compelling reasons to do so.

MAJOR ISSUES RAISED BY RESPONDENTS ON EXPOSURE

6. The ED sought feedback from the constituency on the proposed amendments to the auditing and assurance standards arising from the legislative changes.

7. A total of three submissions were received on *ED Amendments to Auditing and Assurance Standards: Omnibus Amendments (Legislative Update)*. These came from professional bodies (2), and a public sector organisation (1).
8. Respondents were supportive of the amendments proposed to be made to the suites of auditing and assurance standards.
9. The NZAuASB noted the general support for the proposals set out in the ED. After considering the detailed comments made by respondents, the Board decided to proceed with the proposals in the ED without substantive change.

THE RATIONALE FOR AMENDMENTS MADE TO INTERNATIONAL STANDARDS ON AUDITING (ISAs)

The Existence of any Relationship with the Entity

10. The NZAuASB considers that there is a compelling reason to continue to require an independence statement in ISA (NZ) 700, *Forming an Opinion and Reporting on Financial Statements*, even if such a statement is not required by legislation. The NZAuASB considers that being, and being seen to be, independent are fundamental to the value placed on the audit opinion. Accordingly, the NZAuASB's view is that there is a need to disclose to the reader of the auditor's report the existence of any relationships that might bear on independence. This is particularly important in a small jurisdiction like New Zealand.

FMC Reporting Entity

11. There are numerous references to "listed entities" in the ISAs. However, in the New Zealand standards there has been a long-standing widening of scope to include all issuers, rather than just listed entities. The Financial Reporting Act 2013 replaces the term "issuer" with the term "FMC reporting entity", a term defined in the Financial Markets Conduct Act 2013. The NZAuASB considers that, given the nature of the New Zealand capital market, there are compelling reasons to retain the wider scope but adopt the revised terminology.

The New Accounting Standards Framework

12. The NZAuASB has also added New Zealand specific requirements and amended the illustrative auditor reports to take account of the new Accounting Standards Framework in New Zealand in the auditing and assurance standards. The new multi-sector, multi-tier reporting approach has been developed by the XRB partly in response to the amendments to Financial Reporting Act 1993 made in 2011, and the further changes reflected in the Financial Reporting Act 2013.
13. The NZAuASB has added a requirement to ISA (NZ) 700 requiring the auditor's opinion to refer to the "applicable financial reporting framework" used to prepare the financial statements. ISA (NZ) 700 requires that this reference should be to the

specific suite of accounting standards that apply to the tier under which the entity is reporting, rather than the opinion merely referring to generally accepted accounting practice in New Zealand.

14. The financial reporting frameworks (accounting standards) that are designed to achieve fair presentation in New Zealand are as follows:
 - a. New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) – the standards that apply to Tier 1 for-profit entities;
 - b. New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR) – the standards that apply to Tier 2 for-profit entities;
 - c. Public Benefit Entity Standards (PBE Standards) – the standards that apply to Tier 1 public benefit entities;
 - d. Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR) – the standards that apply to Tier 2 public benefit entities;
 - e. Public Benefit Entity Simple Format Reporting– Accrual (Public Sector) (PBE SFR – A (PS)) – the standard that applies to Tier 3 public sector public benefit entities; and
 - f. Public Benefit Entity Simple Format Reporting– Accrual (Not-For-Profit) (PBE SFR – A (NFP)) – the standard that applies to Tier 3 not-for-profit public benefit entities.
15. The financial reporting frameworks (accounting standards) that are compliance frameworks in New Zealand are as follows:
 - a. Public Benefit Entity Simple Format Reporting Standard – Cash (Public Sector) (PBE SFR – C (PS)) – the standard that applies to Tier 4 public sector public benefit entities; and
 - b. Public Benefit Entity Simple Format Reporting Standard– Cash (Not-For-Profit) (PBE SFR – C (NFP)) – the standard that applies to Tier 4 not-for-profit public benefit entities.