



EXPLANATORY GUIDE Au1

Overview of Auditing and Assurance Standards

This Explanatory Guide sets out the role and functions of the External Reporting Board (XRB) and its sub-Board the New Zealand Auditing and Assurance Standards Board (NZAuASB) in issuing auditing and assurance standards. It outlines the auditing and assurance standards that should be applied by assurance practitioners and the extent of their legal obligation to do so.

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Introduction

- 1 This Explanatory Guide provides an overview of auditing and assurance standards in New Zealand. It covers four main topics:
 - The roles and responsibilities of the External Reporting Board (XRB Board), and its sub-Board the New Zealand Auditing and Assurance Standards Board (NZAuASB);
 - The requirement to comply with auditing and assurance standards issued by the XRB;
 - The auditing and assurance standards and other documents issued by the XRB, and the legal standing of those documents; and
 - The auditing and assurance standards applying to different assurance engagements.
- 2 A separate Explanatory Guide (EG Au2: *Overview of the Auditing and Assurance Standard Setting Process*) provides an overview of the process that the XRB Board expects the NZAuASB to follow in developing or adopting, and issuing auditing and assurance standards.

Roles of the XRB Board and the NZAuASB

- 3 The XRB is an independent Crown Entity with continued existence under section 11 of the Financial Reporting Act 2013 and subject to the provisions of the Crown Entities Act 2004. For the purposes of this Explanatory Guide the organisation as a whole is referred to as the XRB while the Board itself is referred to as the XRB Board.
- 4 The functions of the XRB are specified in the Financial Reporting Act 2013. In relation to auditing and assurance standards they comprise:
 - Developing and issuing auditing and assurance standards (including professional and ethical standards for assurance practitioners) and amendments to auditing and assurance standards for application by statutory auditors or other assurance practitioners required to comply with those standards (section 12(b));
 - Developing and implementing strategies for the issue of auditing and assurance standards in order to provide a framework for the XRB's overall direction in the setting of standards (section 12(d));
 - Liaising with international or national organisations that have responsibility for auditing and assurance standard setting (section 12(e)); and
 - Consulting with persons or organisations (or their representatives) who, in the opinion of the XRB Board, would be affected by the issue or amendment of an auditing or assurance standard (section 22).
- 5 While all the functions and responsibilities of the XRB ultimately rest with the XRB Board, the XRB Board has decided to delegate the responsibility for auditing and assurance standard setting to a sub-board, the NZAuASB. The NZAuASB has been established in accordance with the powers vested in the XRB Board under Schedule 5 of the Crown Entities Act 2004.
- 6 Accordingly, the role of the XRB Board under these arrangements is three-fold: organisational governance; financial reporting strategy setting; and appointing and monitoring the performance of the NZAuASB. The financial reporting strategy setting function (required by section 12 (d) of the Financial Reporting Act 2013) includes the establishment (and, if necessary, the revision) of the XRB assurance standards framework.
- 7 The NZAuASB is responsible for developing and issuing auditing and assurance standards. In doing so the NZAuASB must:
 - (a) Operate within the XRB assurance standards framework established by the XRB Board;
 - (b) Liaise with the Australian Auditing and Assurance Standards Board (AUASB) with the objective of harmonising auditing and assurance standards in Australia and New Zealand; and
 - (c) Ensure an appropriate consultation process (due process) is followed – see EG Au2: *Overview of the Auditing and Assurance Standard Setting Process* for an explanation of these requirements.
- 8 The NZAuASB operates under delegated authority from the XRB Board.

Requirement to comply with Auditing and Assurance Standards

- 9 Various New Zealand enactments require assurance practitioners to comply with the auditing and assurance standards issued by the XRB (including professional and ethical standards for assurance practitioners). For example, the Auditor Regulation Act 2011 requires all auditors of FMC reporting entities to comply with the XRB auditing and assurance standards.
- 10 Professional bodies may also require their members who are assurance practitioners to comply with the auditing and assurance standards issued by the XRB (including professional and ethical standards for assurance practitioners).
- 11 Other assurance practitioners may voluntarily comply with the auditing and assurance standards issued by the XRB (including professional and ethical standards for assurance practitioners).

Types of Documents Issued by the XRB

- 12 As outlined in paragraph 11, compliance with auditing and assurance standards is a legal requirement for certain assurance practitioners and in these cases the Standards have legal standing. Further, under section 35 of the Financial Reporting Act 2013, auditing and assurance standards issued under section 12(b) are classified as disallowable instruments for the purposes of the Legislation Act 2012. They are therefore legislative instruments.
- 13 However, not all the documents issued by the XRB have this legal status. Between them the XRB Board and the NZAuASB issue four types of documents:
 - (a) Auditing and assurance standards which are issued under section 12(b) of the Financial Reporting Act 2013;
 - (b) Guidance Statements and Practice Statements which provide guidance on interpreting and applying auditing and assurance standards, that have no legal status;
 - (c) Consultation documents, such as consultation papers and exposure drafts, that have no legal status; and
 - (d) Explanatory documents (such as this Explanatory Guide), that have no legal status.

Only the documents in paragraph 13(a) (which are issued under section 12(b) of the Financial Reporting Act 2013) have legal standing.
- 14 The XRB Board considers it important that the legal status of each document issued by the XRB or the NZAuASB is clear. Accordingly, its policy is to indicate on the front page of each document the legal standing of that document.

Auditing and Assurance Standards

- 15 Auditing and assurance standards issued by the XRB or the NZAuASB are the primary indicators of good assurance practice in New Zealand. The standards contain objectives, definitions, requirements, application and other explanatory material, introductory material and appendices. They set out the requirements or basic principles and essential procedures that assurance practitioners should follow when conducting an assurance engagement, and the behaviours that they should display as part of, and surrounding, that work. The assurance practitioner should apply the mandatory components of the auditing and assurance standards when conducting assurance engagements. The mandatory components are included under the headings listed below:
 - Effective date;
 - Objective(s);
 - Definition(s);
 - Requirements.
- 16 The assurance practitioner should have an understanding of the entire text of the standard, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. The non-mandatory material is included in each standard under the headings listed below:
 - Introduction(s);

- Application and Other Explanatory Material;
- Appendices.

Appendices, which form part of the application material, are an integral part of a standard. The purpose and intended use of an appendix are explained in the body of the related standards or within the title and introduction of the appendix itself. Explanatory material does not create or extend mandatory components.

Auditing and Assurance Standards Applying to Different Assurance Engagements

- 17 The auditing and assurance standards comprise four suites of standards:
- Professional and Ethical Standards;
 - International Standards on Auditing (New Zealand) (ISAs (NZ));
 - Review Engagement Standards including International Standards on Review Engagements (New Zealand) (ISRE (NZ)) and New Zealand Standard on Review Engagements (NZ SRE); and
 - Other Assurance Engagements Standards - Standards on Assurance Engagements (SAEs) and International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)).
- 18 XRB Standard Au1 *Application of Auditing and Assurance Standards* (XRB Au1) establishes which suite of standards applies to which type of assurance engagement. In summary this is as follows:
- All assurance practitioners are required to apply the professional and ethical standards in preparing for and conducting an assurance engagement.
 - Assurance practitioners conducting an audit of historical financial information are required to apply International Standards on Auditing (New Zealand).
 - Assurance practitioners conducting a review of historical financial information are required to apply Review Engagement Standards.
 - Assurance practitioners conducting assurance engagements other than audits or reviews of historical financial information are required to apply Other Assurance Engagement Standards.
- 19 The specific standards to be applied are detailed in XRB Au1.

Professional and Ethical Standards

- 20 There are two Professional and Ethical Standards:
- Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners*
 - Professional and Ethical Standard 3 (Amended): *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*
- 21 Professional and Ethical Standard 1 (Revised) is based on the Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA) as it applies to assurance engagements. Professional and Ethical Standard 3 (Amended) is based on International Standard on Quality Control (ISQC) 1 issued by the International Auditing and Assurance Standards Board (IAASB).

International Standards on Auditing (New Zealand) (ISAs (NZ))

- 22 An audit is designed to provide a high, but not absolute, level of assurance, expressed positively in the auditor's report as reasonable assurance, that the information subject to audit is free of material misstatement.
- 23 International Standards on Auditing (New Zealand) (ISAs (NZ)) are based on the equivalent International Standards on Auditing issued by the IAASB. ISAs (NZ) are written in the context of an audit of financial statements¹ by an independent auditor. They are to be applied, as appropriate, to all audits.

¹ Unless otherwise stated, "financial statements" means financial statements comprising historical financial information.

- 24 ISAs (NZ) follow the format of the pronouncements issued by the IAASB. However, ISAs (NZ) cross refer to other New Zealand Standards (rather than ISAs) and state an application date as determined by the XRB or the NZAuASB.
- 25 ISAs (NZ) are supported by International Auditing Practice Notes (New Zealand) (IAPNs (NZ)) and Audit Guidance Statements (AGs). The IAPNs (NZ) and AGs provide guidance on the application of ISAs (NZ) but have no legal standing.

Review Engagement Standards

- 26 A review is a limited assurance engagement. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary for an audit.
- 27 The objective of a review engagement of financial information is to enable the reviewer to express a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the reviewer's attention to cause the reviewer to believe that the financial information is materially misstated. A review report helps lend some credibility to the financial information. The user, however, should be informed that an audit has not been performed.
- 28 There are currently three review standards:
- RS-1 *Statement of Review Engagement Standards*;
 - ISRE (NZ) 2400 *Review of Historical Financial Statements Performed by an Assurance Practitioner*; and
 - NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*
- 29 RS-1 was issued by the XRB Board on 1 July 2011 and applies to reviews of historical financial statements for periods beginning on or after 1 September 2011, and to other review engagements beginning on or after 1 September 2011. RS-1 is a domestic standard and is not directly derived from the international standard issued by the IAASB. RS-1 will be superseded by ISRE (NZ) 2400 and NZ SRE 2410 for periods ending on or after December 31, 2014. Early adoption is permitted.
- 30 ISRE (NZ) 2400 and NZ SRE 2410 are written in the context of a review of historical financial information. Limited assurance engagements other than reviews of historical financial information are performed under ISAE (NZ) 3000.

Other Assurance Engagement Standards

- 31 The Other Assurance Engagements Standards ((SAEs) and (ISAEs (NZ))) apply to assurance engagements other than those relating to audits or reviews of historical financial statements. These engagements may provide either reasonable or limited assurance, depending on the nature of the engagement. These standards are issued by the XRB and the NZAuASB in accordance with section 12(b)(iii) of the Act which allows the XRB to issue other standards for purposes approved by the Minister responsible for the XRB.
- 32 The SAEs are domestic standards and are not directly derived from the international standards issued by the IAASB.
- 33 The ISAEs (NZ) are based on the equivalent international standards on assurance engagements issued by the IAASB. They follow the format of the pronouncements issued by the IAASB.