

The purpose of this document is to clearly indicate all changes made to the International Standard on Auditing when developing the International Standard on Auditing (New Zealand) equivalent. Amended paragraphs are shown with new text underlined and deleted text struck through.

This document has been prepared by staff for information purposes only.

FOR INFORMATION ONLY

Introduction

Scope of this ISA (NZ)

1. The International Standards on Auditing (New Zealand) (ISAs (NZ)) in the 100-700 series apply to an audit of financial statements. This ISA (NZ) deals with special considerations in the application of those ISAs (NZ) to an audit of financial statements prepared in accordance with a special purpose framework.
2. This ISA (NZ) is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. ISA (NZ) 805¹ deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.
3. This ISA (NZ) does not override the requirements of the other ISAs (NZ); nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

Effective Date

4. This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011.

Objective

5. The objective of the auditor, when applying ISAs (NZ) in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:
 - (a) The acceptance of the engagement;
 - (b) The planning and performance of that engagement; and
 - (c) Forming an opinion and reporting on the financial statements.

Definitions

6. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework. (Ref: Para. A4)
 - (b) Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.² (Ref: Para. A1-A4)
7. Reference to “financial statements” in this ISA (NZ) means “a complete set of special purpose financial statements, including the related notes.” The related notes ordinarily

¹ ISA (NZ) 805, “Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

² ISA (NZ) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand),” paragraph 13(a).

comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.

Requirements

Considerations When Accepting the Engagement

Acceptability of the Financial Reporting Framework

8. ISA (NZ) 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.³ In an audit of special purpose financial statements, the auditor shall obtain an understanding of: (Ref: Para. A5-A8)
 - (a) The purpose for which the financial statements are prepared;
 - (b) The intended users; and
 - (c) The steps taken by management and those charged with governance to determine that the applicable financial reporting framework is acceptable in the circumstances.

Considerations When Planning and Performing the Audit

9. ISA (NZ) 200 requires the auditor to comply with all ISAs (NZ) relevant to the audit.⁴ In planning and performing an audit of special purpose financial statements, the auditor shall determine whether application of the ISAs (NZ) requires special consideration in the circumstances of the engagement. (Ref: Para. A9-A12)
10. ISA (NZ) 315 requires the auditor to obtain an understanding of the entity's selection and application of accounting policies.⁵ In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management and those charged with governance made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.

Forming an Opinion and Reporting Considerations

11. When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in ISA (NZ) 700.⁶ (Ref: Para. A13)

Description of the Applicable Financial Reporting Framework

12. ISA (NZ) 700 requires the auditor to evaluate whether the financial statements

³ ISA (NZ) 210, "Agreeing the Terms of Audit Engagements," paragraph 6 (a).

⁴ ISA (NZ) 200, paragraph 18.

⁵ ISA (NZ) 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 11(c).

⁶ ISA (NZ) 700, "Forming an Opinion and Reporting on Financial Statements."

adequately refer to or describe the applicable financial reporting framework.⁷ In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

13. ISA ~~(NZ)~~ 700 deals with the form and content of the auditor's report. In the case of an auditor's report on special purpose financial statements:
- (a) The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and
 - (b) If ~~management has~~ those charged with governance have a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of the responsibility of those charged with governance for the financial statements shall also make reference to their responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework

14. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading. (Ref: Para. A14-A15)

Application and Other Explanatory Material

Definition of Special Purpose Framework (Ref: Para. 6)

A1. Examples of special purpose frameworks are:

- A tax basis of accounting for a set of financial statements that accompany an entity's tax return;
- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
- The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
- The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

A2. There may be circumstances where a special purpose framework is based on a financial reporting framework established by an ~~authorized~~ authorised or ~~recognized~~ recognised standards setting ~~organization~~ organisation or by law or regulation, but does not comply with all the requirements of that framework. An example is a

⁷ ISA (NZ) 700, paragraph 15.

contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Jurisdiction X. When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the financial reporting framework established by the ~~authorized~~authorised or ~~recognized~~recognised standards setting ~~organization~~organisation or by law or regulation. In the above example of the contract, the description of the applicable financial reporting framework may refer to the financial reporting provisions of the contract, rather than make any reference to the Financial Reporting Standards of Jurisdiction X.

- A3. In the circumstances described in paragraph A2, the special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework. This is because the special purpose framework may not comply with all the requirements of the financial reporting framework established by the ~~authorized~~authorised or ~~recognized~~recognised standards setting ~~organization~~organisation or by law or regulation that are necessary to achieve fair presentation of the financial statements.
- A4. Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be special purpose financial statements for purposes of the ISAs (NZ). The requirements in paragraphs 13-14 are designed to avoid misunderstandings about the purpose for which the financial statements are prepared.

Considerations When Accepting the Engagement

Acceptability of the Financial Reporting Framework (Ref: Para. 8)

- A5. In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.
- A6. The applicable financial reporting framework may encompass the financial reporting standards established by an ~~organization~~organisation that is ~~authorized~~authorised or ~~recognized~~recognised to promulgate standards for special purpose financial statements. In that case, those standards will be presumed acceptable for that purpose if the ~~organization~~organisation follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such entity.
- A7. Where the financial reporting standards referred to in paragraph A6 are supplemented by legislative or regulatory requirements, ISA (NZ) 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the

additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist.⁸

- A8. The applicable financial reporting framework may encompass the financial reporting provisions of a contract, or sources other than those described in paragraphs A6 and A7. In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 of ISA (NZ) 210. In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional ~~judgment~~judgement. For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information is not neutral when compared with financial information prepared in accordance with a general purpose framework.

Considerations When Planning and Performing the Audit (Ref. Para. 9)

- A9. ISA (NZ) 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all ISAs (NZ) relevant to the audit. It also requires the auditor to comply with each requirement of an ISA (NZ) unless, in the circumstances of the audit, the entire ISA (NZ) is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA (NZ) by performing alternative audit procedures to achieve the aim of that requirement.⁹
- A10. Application of some of the requirements of the ISAs (NZ) in an audit of special purpose financial statements may require special consideration by the auditor. For example, in ISA (NZ) 320, ~~judgments~~judgements about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.¹⁰ In the case of an audit of special purpose financial statements, however, those ~~judgments~~judgements are based on a consideration of the financial information needs of the intended users.
- A11. In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, ~~management~~those charged with governance may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with ISA (NZ) 320 for purposes of planning and performing the audit of the special purpose financial statements.

⁸ ISA (NZ) 210, paragraph 18.

⁹ ISA (NZ) 200, paragraphs 14, 18 and 22-23.

¹⁰ ISA (NZ) 320, "Materiality in Planning and Performing an Audit," paragraph 2.

A12. Communication with those charged with governance in accordance with ISAs (NZ) is based on the relationship between those charged with governance and the financial statements subject to audit, in particular, whether those charged with governance are responsible for overseeing the preparation of those financial statements. In the case of special purpose financial statements, those charged with governance may not have such a responsibility; for example, when the financial information is prepared solely for management's use. In such cases, the requirements of ISA (NZ) 260¹¹ may not be relevant to the audit of the special purpose financial statements, except when the auditor is also responsible for the audit of the entity's general purpose financial statements or, for example, has agreed with those charged with governance of the entity to communicate to them relevant matters identified during the audit of the special purpose financial statements.

Forming an Opinion and Reporting Considerations (Ref: Para. 11)

A13. The Appendix to this ISA (NZ) contains illustrations of auditors' reports on special purpose financial statements.

Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework (Ref: Para. 14)

A14. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. To avoid misunderstandings, the auditor alerts users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

Restriction on Distribution or Use (Ref: Para. 14)

A15. In addition to the alert required by paragraph 14, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the paragraph referred to in paragraph 14 may be expanded to include these other matters, and the heading modified accordingly.

¹¹ [ISA \(NZ\) 260, "Communication with Those Charged with Governance."](#)

Illustrations of Auditors' Reports on Special Purpose Financial Statements

- Illustration 1: An auditor's report on a complete set of financial statements prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- Illustration 2: An auditor's report on a complete set of financial statements prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).
- Illustration 3: An auditor's report on a complete set of financial statements prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

Illustration 1:**Circumstances include the following:**

- **The financial statements have been prepared by the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework) to comply with the provisions of that contract. The entity does not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a COMPLIANCE framework.**
- **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 and use of the auditor's report are restricted.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC ~~Company~~, [entity], 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. The financial statements have been prepared ~~by management of ABC Company~~ based on the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between ABC ~~Company~~ (entity) and DEF ~~Company Limited~~ ("the contract").

[Those Charged with Governance's]¹ Responsibility for the Financial Statements

[Those charged with governance] are responsible for the preparation of these financial statements in accordance with the financial reporting provisions of Section Z of the contract and for such internal control as ~~management determines~~ [those charged with governance] ~~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 ~~judgment~~ 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

¹ Use the term that is appropriate in the context of the legal framework in the particular jurisdiction.

not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates ~~made by management~~, 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 [entity].

Opinion

In our opinion, the financial statements of ABC ~~Company~~[entity] for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with the financial reporting provisions of Section Z of the contract.

Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC ~~Company~~[entity] to comply with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC ~~Company~~[entity] and DEF ~~Company~~Limited and should not be distributed to or used by parties other than ABC ~~Company~~[entity] or DEF ~~Company~~Limited.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 2:**Circumstances include the following:**

- **The financial statements have been prepared by a partnership in accordance with the tax basis of accounting in New Zealand (that is, a special purpose framework) to assist the partners in preparing their individual income tax returns. Those charged with governance of the partnership do not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a COMPLIANCE framework.**
- **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]~~

To the Partners of ABC Partnership

We have audited the accompanying financial statements of ABC Partnership, 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. The financial statements have been prepared ~~by management~~ using the tax basis of accounting in ~~Jurisdiction X~~New Zealand.

[Those Charged with Governance's]² Responsibility for the Financial Statements

[Those charged with governance] are responsible for the preparation of these financial statements in accordance with the tax basis of accounting in ~~Jurisdiction X~~New Zealand and for such internal control as ~~management determines~~[those charged with governance] 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 ~~judgment~~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 partnership'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 partnership's internal

² Use the term that is appropriate in the context of the legal framework in the particular jurisdiction.

control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates ~~made by management~~, 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, the partnership.

Opinion

In our opinion, the financial statements of ABC Partnership for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with ~~{describe the applicable income tax law} of Jurisdiction X~~ taxation legislation in New Zealand.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the partners of ABC Partnership in preparing their individual income tax returns. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for ABC Partnership and its partners and should not be distributed to parties other than ABC Partnership or its partners.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 3:**Circumstances include the following:**

- The financial statements have been prepared in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Those charged with governance of the entity do not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a FAIR PRESENTATION framework. (Note that this is an extremely rare circumstance in New Zealand).
- 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 or use of the auditor's report is not restricted.
- The Other Matter paragraph refers to the fact that the auditor has also issued an auditor's report on financial statements prepared by ABC Company for the same period in accordance with a general purpose framework.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC ~~Company~~Limited, 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. The financial statements have been prepared by ~~management~~the directors based on the financial reporting provisions of Section Y of Regulation Z.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation ~~and fair presentation~~ of these financial statements in accordance with the financial reporting provisions of Section Y of Regulation Z and that give a true and fair view of the matters to which they relate, and for such internal control as ~~management determines~~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 ~~judgment~~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~~⁵~~of the~~

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.³ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made ~~by management~~, 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.

Opinion

In our opinion, the financial statements ~~present fairly, in all material respects, (or~~ give a true and fair view of the financial position of ABC ~~Company Limited~~ as at December 31, 20X1, and of its financial performance and cash flows for the year then ended and have been prepared in accordance with the financial reporting provisions of Section Y of Regulation Z.

Basis of Accounting

Without modifying our opinion, we draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ABC ~~Company Limited~~ to meet the requirements of Regulator DEF. As a result, the financial statements may not be suitable for another purpose.

Other Matter

ABC ~~Company Limited~~ has prepared a separate set of financial statements for the year ended December 31, 20X1 in accordance with ~~International Financial Reporting Standards~~ generally accepted accounting practice in New Zealand on which we issued a separate auditor's report to the shareholders of ABC ~~Company Limited~~ dated March 31, 20X2.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

³ 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."