

Board Meeting Agenda

24 October 2018

9.15 am to 5.00pm

XRB Offices, Level 7, 50 Manners Street, Wellington

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
9.15 am	1	<u>Welcome and Introduction</u> Apologies:			
9.20 am	2	<u>Board Management</u>			
10.30am	Morning tea				
B: PUBLIC SESSION					
10.45 am	3	<u>IAASB ED on ISA 315 (Revised)</u>			
	3.1	Board meeting summary paper	Note	Paper	Separate
	3.2	Draft submission to IAASB	Approve	Paper	
	3.3	Exposure draft	Note	Paper	
	3.4	Roundtable feedback	Note	Paper	
	3.5	CA ANZ Submission (confidential)	Note	Paper	
11.40 am	4	<u>Planning for Joint NSS meeting Australia</u>			
	4.1	Board meeting summary paper	Note	Paper	
	4.2	NSS Draft Vision and Mission	Consider	Paper	
	4.3	Draft Statement of Purpose	Consider	Paper	
	4.4	A model for NSS from the AASB	Note	Paper	
	4.5	The IASB’s Charter	Note	Paper	
12.00 pm	5	<u>Meet with IOD</u>			
	5.1	Discussion on better engagement with IOD members	Discuss	Verbal	-
12:45 pm	Lunch				
1.30 pm	6	<u>Service Performance Information</u>			
	6.1	Board meeting summary paper	Note	Paper	Separate
	6.2	Analysis of submissions received	Consider	Paper	
	6.3	Mark up of draft standard	Consider	Paper	
	6.4	AUASB Technical Reference Group Submission	Note	Paper	
	6.5	CAANZ submission	Note	Paper	
	6.6	OAG submission	Note	Paper	
	6.7	Karen Van Beursem submission	Note	Paper	
	6.8	KPMG submission	Note	Paper	
2.30 pm	7	<u>ISA 540</u>			
	7.1	Board meeting summary paper	Note	Paper	
	7.2	ISA (NZ) 540 (Revised)	Approve	Paper	

Est. Time	Item	Topic	Objective		Page
	7.3	Conforming amendments	Approve	Paper	
	7.4	Signing memorandum	Approve	Paper	
3:00 pm	<i>Afternoon tea</i>				
3:15 pm	8	<u>Planning for EER roundtable</u>			
	8.1	Board meeting summary paper	Note	Paper	
	8.2	EER discussion event – Auckland briefing notes	Consider	Paper	
	8.3	Draft IAASB guidance (IAASB September agenda)	Consider	Paper	
	8.4	Summary of feedback from XRAP	Note	Paper	
4:00 pm	9	<u>NZ SRE 2410</u>			
	9.1	Board meeting summary paper	Note	Paper	
	9.2	Issues paper	Consider	Paper	
	9.3	Draft exposure draft	Consider	Paper	
	9.4	Draft ITC	Consider	Paper	
4:45 pm	10	<u>Environmental Scanning</u>			
	10.1	International monitoring update	Note	Paper	
	10.2	Domestic monitoring update	Note	Paper	
	10.3	Academic research update	Note	Paper	
C: NON-PUBLIC SESSION					
4.50 pm	11	<u>Closing items</u>			

Next meeting: 6 December 2018, Wellington

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 3.1
Meeting date: 24 October 2018
Subject: ED 315 Risk Assessment
Date: 12 September 2018
Prepared by: Peyman Momenan

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

The objective of this agenda item is for the Board to:

- CONSIDER and APPROVE the NZAuASB draft submission on the IAASB Exposure Draft, ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*.

Background

1. The IAASB issued the final IAASB Exposure Draft, ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement* on 16 July 2018. Comments are requested by November 2, 2018.
2. The NZAuASB has re-issued the ED in NZ and requested comments by 8 October 2018. However, we have received no submissions. Chartered Accountants Australian and New Zealand (CA ANZ) have informed us that they are preparing a joint submission with the ACCA to the IAASB on this ED, and that they will not be providing a separate detailed submission to the NZAuASB. However, they have provided their initial high-level responses to the ED (included in Agenda item 3.5), which is to be treated as confidential.
3. On 16 of August we jointly hosted a 90-minute webinar with the Australian Auditing and Assurance Standards Board in relation to ED-315. Fiona Campbell, IAASB Member and Chair of the ISA 315 Task Force explained the key revisions to the auditor's risk assessment procedures, as introduced through the recently published ISA 315 Exposure Draft.
4. In the September meeting we received feedback from the Board about the questions included in the ED-315. We have incorporated that feedback into the draft submission.
5. We also held two roundtable sessions (on 30 August 2018 in Wellington and on 6 September 2018 in Auckland) to receive feedback from practitioners and other stakeholders about ED-315. As it was not practical to go through all the questions included in ED-315, we only sought feedback about questions and matters identified as most pertinent. A summary of the feedback received is included in Agenda item 3.4. We have considered the feedback when drafting the submission.

6. We also exchanged ideas with the AUASB staff on ED-315. AUASB staff have kindly provided us with the feedback the AUASB received from its constituency in roundtable sessions held in Perth and Hobart. The AUASB is due to approve their draft submission to the IAASB on 29th of October 2018. Our liaison with the AUASB staff to the date of this summary paper indicates a close alignment in both the feedback received from the Boards' respective constituencies and the tone and content of the Boards' submission to the IAASB on ED-315.

Draft submission

7. Agenda item 3.2 includes the NZAuASB draft submission on ED-315. The draft submission is largely supportive of the proposed enhancement and additional guidance included in ED-315.

Action

8. For the Board to provide feedback in relation to the draft submission and to APPROVE the draft submission subject to the feedback.

Material Presented

Agenda item 3.1	Board Meeting Summary Paper
Agenda item 3.2	The NZAuASB Draft submission letter to the IAASB on ED-315
Agenda item 3.3	IAASB ED ISA 315 (Revised)
Agenda item 3.4	Summary of feedback in Auckland and Wellington roundtables
Agenda item 3.5	CA ANZ high level responses to ED-315

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Dan Montgomery
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, 10017
USA

Dear Dan,

Proposed ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement (ED-315)

Thank you for the opportunity to comment on this Exposure Draft. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) to the specific questions raised in the Proposed ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*, (ED-315) in the attachment.

The External Reporting Board (XRB) is a Crown Entity responsible for developing and issuing accounting and auditing and assurance standards in New Zealand. The XRB's outcome goal is to contribute to the creation of dynamic and trusted markets through the establishment of an accounting and assurance framework that engenders confidence in New Zealand financial reporting, assists entities to compete internationally and enhances entities' accountability to stakeholders. The NZAuASB has been delegated responsibility by the XRB for developing and issuing auditing and assurance standards, including ethical standards for assurance practitioners.

Overall comments

The NZAuASB is very supportive of the IAASB's initiative to enhance and update ISA 315 (Revised) in light of public interest matters identified in paragraphs 6 to 28 of the Explanatory Memorandum of ED-315. The NZAuASB believes that ED-315 is successful in appropriately addressing these matters except for scalability.

The scalability of the ISAs remains an elusive objective and we do not consider that the proposed approach significantly improves the scalability of ISA 315 (Revised) compared to the extant standard. The NZAuASB considers that the IAASB webinars dealing with questions and answers were extremely helpful in this regard and recommends developing non- authoritative guidance in the form of F&Qs and practical examples to assist auditors with the implementation of the standard. Overall the NZAuASB believes that addressing scalability of the ISAs needs to be considered holistically across the suite of auditing standards and a fresh drafting approach may be needed to achieve scalability.

In formulating this response, the NZAuASB sought input from New Zealand constituents. Roundtables were held in both Auckland and Wellington. We were also fortunate to have f Fiona Campbell, Task Force Chair, present two webinars to NZAuASB and AUASB constituents. Fiona was also present at one of our roundtables to answer questions which was very helpful to the participants. .

Should you have any queries concerning our submission please contact me at the address details provided below or Sylvia van Dyk (sylvia.vandyk@xrb.govt.nz).

Yours sincerely,

Robert Buchanan

Chairman

Email: robert@buchananlaw.co.nz

Submission of the New Zealand Auditing and Assurance Standards Board

Proposed ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement

I Schedule of Responses to the IAASB's Specific Questions

Overall Questions

1. Has ED-315 been appropriately restructured, clarified and modernized in order to promote a more consistent and robust process for the identification and assessment of the risks of material misstatement. In particular:
 - (a) Do the proposed changes help with the understandability of the risk identification and assessment process? Are the flowcharts helpful in understanding the flow of the standard (i.e., how the requirements interact and how they are iterative in nature)?

Yes. The NZAuASB believes that the restructure and re-arrangements of the requirements and application material in the proposed standard help with the understandability of the risk identification and assessment process.

The NZAuASB appreciates that risk identification and assessment is a complex and iterative process which is not easy to present in a linear standard form. The three flowcharts are useful to enhance a better high-level understanding of the standard and the flow of the risk assessment.

Notwithstanding the above, the NZAuASB considers that the significant increased length of the proposed standard may be a barrier to understanding it. Including the flowcharts as part of the standard would be helpful in this regard.

- (b) Will the revisions promote a more robust process for the identification and assessment of the risks of material misstatement and do they appropriately address the public interest issues outlined in paragraphs 6-28?

Yes. The NZAuASB agrees that the proposed standard is likely to promote a more robust process for the identification of risks of material misstatement.

The restructure and re-arrangements of the requirements and application material is a significant improvement over the extant ISA 315.

- Introduction of the inherent risk factors is another successful addition that will be helpful to auditors in how to identify and assess inherent risk.
- The proposed approach in addressing the use of automated tools and techniques and data analytics in application and other explanatory material section of the standard is very timely and relevant, given the wide range of techniques being used which are constantly evolving.
- Revisions in relation to Information Technology (IT) and how an auditor should consider IT as part of the risk assessment is particularly appropriate.

The NZAuASB also believes that the proposed standard is overall successful in addressing the public interest issues outlined in paragraphs 6-28 of ED-315. However, and as further discussed in **the NZAuASB's response to question 2, the proposed standard** is unlikely to significantly improve scalability of the standard.

Also, while the enhancements in the proposed standard in relation to professional skepticism are welcome, requirements in auditing standards on their own are unlikely to have a significant impact

on the application of professional scepticism by auditors.

(c) Are the new introductory paragraphs helpful?

Yes. The introductory paragraphs provide an overview of the standard and help the reader to better understand the principles underlying the proposed standard. However, it may be useful to clearly describe the status of these paragraphs. Are these paragraphs authoritative? The NZAuASB believes that this may need further clarification.

2. Are the requirements and application material of ED-315 sufficiently scalable, including the ability to apply ED-315 to the audits of entities with a wide range of sizes, complexities and circumstances?

While the NZAuASB believes that the requirements of the proposed standard are relevant to all audit engagements regardless of their size or complexity, the proposed standard does not significantly improve the scalability of application of these requirements compared to the extant standard. Consistent with other ISAs, the application and other explanatory material of the proposed standard is drafted for a complex, large and high-risk audit engagement. Auditors of small and less complex entities need to go through all the application and explanatory material to then be able to scale down.

Notwithstanding the above, the NZAuASB appreciates the IAASB's efforts to improve the scalability of ED-315 over the extant standard. For example, under the circumstances described in paragraph A167 of ED-315, the only controls relevant to the audit of a small and less complex entity would be controls over journal entries. This guidance is likely to assist the auditors of smaller and less complex entities with scaling down the standard. The NZAuASB suggests that paragraph A90 of ED-315, which explains that the extent and nature of required understanding of each component of internal controls relevant to financial reporting depends on matters such as size and complexity of the entity, is included after paragraph 26 of ED-315. The NZAuASB believes that including this paragraph in the requirement section of the proposed standard can help with the scalability of ED-315.

Finally, the NZAuASB does not believe that the new approach adopted in ED-315 to include the guidance for small and less complex audits within the application material paragraphs instead of under a separate heading (as in the extant ISA315) makes a significant difference to scalability. On the other hand, the length of ED-315 (more than twice of the length of extant ISA 315) is likely to adversely affect how the standard is read and understood by the auditors of smaller and less complex entities.

3. Do respondents agree with the approach taken to enhancing ED-315 in relation to automated tools and techniques, including data analytics, through the use of examples to illustrate how these are used in an audit (see Appendix 1 for references to the relevant paragraphs in ED-315)? Are there other areas within ED-315 where further guidance is needed in relation to automated tools and techniques, and what is the nature of the necessary guidance?

Yes. the proposed approach is appropriate. The NZAuASB believes that the provided reasoning in paragraphs 20 to 23 of the Explanatory Memorandum soundly supports the adopted approach in ED-315. The NZAuASB has not identified any areas where additional guidance is needed in relation to automated tools and techniques.

4. Do the proposals sufficiently support the appropriate exercise of professional scepticism throughout the risk identification and assessment process? Do you support the proposed **change for the auditor to 'obtain appropriate sufficient audit evidence' through the** performance of risk assessment procedures to provide the basis for identification and assessment of the risks of material misstatement, and do you believe that this clarification will further encourage professional scepticism?

The NZAuASB believes that prompting auditors to be alert for contradictory evidence (as explained in paragraphs A19 and A44 of ED-315) is likely to assist auditors in exercising professional scepticism. Team discussion and obtaining an appropriate understanding of the entity and its environment and the applicable financial reporting framework will also be helpful.

However, the NZAuASB does not support the proposed change in paragraph 17 of ED-315 for the **auditor to ‘obtain appropriate sufficient audit evidence’** through the performance of risk assessment procedures to provide the basis for identification and assessment of the risks of material misstatement. As stated in paragraph 2 of ED-315, the overall objective of the auditor in conducting an audit of the financial statements includes obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. This objective is consistent with the definition of audit evidence as **“Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.”**

Requiring auditors to obtain appropriate sufficient audit evidence as the basis for their risk identification process is inconsistent with the existing definition of audit evidence and why it is obtained. The NZAuASB believes that appropriate documentation of the required understanding in paragraph 17 more accurately describes what can be reasonably be expected from an auditor in relation to performing a risk assessment process. Consequently, the NZAuASB suggests deleting the words as indicated:

“The auditor shall design and perform risk assessment procedures to obtain an understanding of:

- The entity and its environment
- The applicable financial reporting framework
- **The entity’s system of internal control**

~~To obtain sufficient appropriate audit evidence~~ as the basis for the identification and assessment of the risks of material misstatement at the financial statement and assertion levels. Risk assessment procedures by themselves, however, do not provide sufficient appropriate audit evidence on which to base the audit opinion.”

Specific Questions

5. **Do the proposals made relating to the auditor’s understanding of the entity’s system of internal control** assist with understanding the nature and extent of the work effort required and the relationship of the work effort to the identification and assessment of the risks of material misstatement? Specifically:
 - (a) **Have the requirements related to the auditor’s understanding of each component of the entity’s system of internal control been appropriately enhanced and** clarified? Is it clear why the understanding is obtained and how this informs the risk identification and assessment process?

The NZAuASB agrees that obtaining an understanding of the system of internal controls is a **fundamental part of the auditor’s risk assessment**. Paragraph A200 of ED-315 provides a reasonable explanation why understanding the system of internal controls is required in an audit even if there is no expectation of testing the operating effectiveness of controls (i.e. control risk defaulted to maximum).

Notwithstanding the above, during the NZAuASB consultations with its constituency, a recurring question was why understanding all **the components of the entity’s system of internal control** (to the extent required by ED-315) is required when a primarily substantive approach to the audit is planned. For example, when an auditor does not rely on internal controls (control risk defaulted to **a maximum**), **the outcome of such an understanding will have no impact on the auditor’s** assessment of internal control (risk of internal controls cannot be more than maximum).

The NZAuASB believes that it may be helpful to further clarify that understanding the system of internal control is relevant to the **auditor's identification and assessment of inherent risk as well as control risk**. The NZAuASB supports non-authoritative guidance including examples to clarify this issue. The IAASB webinar dealing with questions and answers were extremely helpful in this regard, and it may be worthwhile publishing a F&Q to assist auditors with the implementation of the standard.

- (b) **Have the requirements related to the auditor's identification of controls relevant to the** audit been appropriately enhanced and clarified? Is it clear how controls relevant to the audit are identified, particularly for audits of smaller and less complex entities?

In response to the first part of the question the answer is yes. Paragraph 39 of ED-315 provides a clear and easy to understand list of controls that are relevant to the audit and also clarifies what is expected from auditors in relation to the relevant controls.

The NZAuASB's response to the second part of the question is a tentative yes due to some **concerns in relation to the required procedures in relation to understanding the entity's use of IT in the information system**. The NZAuASB's concerns about this are further discussed in the response to question 5(c) below.

- (c) Do you support the introduction of the new IT-related concepts and definitions? Are the **enhanced requirements and application material related to the auditor's understanding of the IT environment, the identification of the risks arising from IT and the identification of general IT controls sufficient to support the auditor's consideration of the effects of the entity's use of IT on the identification and assessment of the risks of material misstatement?**

The NZAuASB strongly supports the new IT-related concepts and definitions. The NZAuASB welcomes the proposed clarifications and enhancements as well as the additional guidance included in ED-315 about **risks arising from an entity's use of IT in its information system**.

Notwithstanding the above, the NZAuASB is concerned that the application material corresponding to the requirements included in paragraphs 35(d) and 40 of ED-315 may be difficult to understand and interpret for the auditors of smaller and less complex entities.

Paragraph A144 explains that the objective of performing the required procedures in paragraph 35(d) is to identify and assess risks arising from the use of IT. Paragraph A145 provides examples of such risks. Finally, paragraph A149 explains that obtaining the required understanding in the audits of smaller and less complex entities can be easily accomplished. This paragraph describes matters an auditor may need to consider in such circumstances.

However, the application material does not explain how the recommended work described in Paragraph A149 will relate to the identification of risks arising from the use of IT as discussed in paragraphs A144 and A145 (e.g. whether well-established, reputable and reliable software is immune to unauthorized access or improper changes to data). It also remains unclear whether the auditor of a small and less complex entity that meets the circumstances described in para 149 is required to consider matters included in paragraphs A147 and A148 of ED-315.

Finally, the NZAuASB is concerned that the described circumstances in paragraph A149 for a small and less complex entity is not typical for small and less complex entities in the developed countries. Even micro entities are likely to use electronic banking solutions, software for managing human resources (including payroll processing and employment record keeping), computerised sale and ordering systems and/or inventory management systems in addition to a commercial accounting software. Consequently, the included example in ED-315 for a small and less complex entity may be over simplified and may cause some auditors to underestimate the importance of IT in their circumstances.

The NZAuASB recommends that instead of contrasting a very simple IT environment (where IT is effectively not applicable) to a sophisticated IT environment, the application material considers a spectrum for how the use of IT can influence the information systems (and controls) underlying the financial statements.

6. Will the proposed enhanced framework for the identification and assessment of the risks of material misstatement result in a more robust risk assessment? Specifically:

- (a) Do you support separate assessments of inherent and control risk at the assertion level, and are the revised requirements and guidance appropriate to support the separate assessments?

The NZAuASB supports the separate assessment and consider the proposed requirements and application material to be appropriate. To further clarify the separation between inherent and control risk assessment, the NZAuASB suggests the following changes to paragraph 4 of ED-315.

“The required understanding of the entity and the environment, the applicable financial reporting framework, and the system of internal controls form the basis for the auditor’s identification of risks of material misstatement. The identification of the inherent risk component of risks of material misstatement at the assertion level is performed before consideration of any controls. The auditor does so based on a preliminary assessment of inherent risk that involve by identifying those risks for which a preliminary inherent risk assessment indicates there is a reasonable possibility of misstatement.

- (b) **Do you support the introduction of the concepts and definitions of ‘inherent risk factors’ to help identify risks of material misstatement and assess inherent risk? Is there sufficient guidance to explain how these risk factors are used in the auditor’s risk assessment process?**

The NZAuASB considers emphasising factors including complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or fraud is helpful and will drive more consistency as to the types of and reasons for identification of risks. The NZAuASB believes that there is sufficient guidance in ED-315 about the inherent risk factors.

The NZAuASB further believes that the size of an account balance, class of transactions or disclosure may be another inherent risk factor to be included in ED-315. This simply reflects the fact that a misstatement related to a larger account balance, class of transactions or disclosure is more likely to be a material misstatement. Including size as an inherent risk factor is also likely to help with determining whether a stand-back requirement is required in both ED-315 and ISA 330 (further discussed in the NZAuASB’s response to the question 8 below).

- (c) In your view, will **the introduction of the ‘spectrum of inherent risk’ (and the related concepts of assessing the likelihood of occurrence, and magnitude, of a possible misstatement)** assist in achieving greater consistency in the identification and assessment of the risks of material misstatement, including significant risks?

The NZAuASB supports the introduction of the concept and acknowledges the “spectrum of inherent risk” is a practical way to identify and then assess inherent risk. **The NZAuASB also believes** the concepts of likelihood of occurrence and magnitude of possible misstatements are useful, i.e. in planning the audit effort the auditor will take both of these into account. However, feedback from NZAuASB’s constituents indicates that consistent application of these concepts and definition depends on audit firms’ methodology.

- (d) Do you support the introduction of the new concepts and related definitions of significant

classes of transactions, account balances and disclosures, and their relevant assertions? Is there sufficient guidance to explain how they are determined (i.e., an assertion is relevant when there is a reasonable possibility of occurrence of a misstatement that is material with respect to the assertion), and how they assist the auditor in identifying where risks of material misstatement exist?

The NZAuASB agrees that defining significant classes of transactions, account balances and **disclosures is useful and may help to clarify the scope of the auditor's understanding of the** information system and the **scope for the auditor's responses to the assessed** risks of material misstatement.

The NZAuASB however has concerns in relation to the definition of 'relevant assertions'. Paragraph 16(h) defines a relevant assertion as follows.

"an assertion is relevant to a class of transactions, account balance or disclosure when the nature or circumstances of that item are such that there is a reasonable possibility of occurrence of a misstatement with respect to that assertion that is material, individually or in combination with other misstatements. There is such possibility when the likelihood of a material misstatement is more than remote. The determination of whether an assertion is a relevant assertion is made before **consideration of controls"**.

The NZAuASB considers that the current drafting could be clarified further as these two terms may be seen as different, which may be confusing. If the two terms are seen as equivalent, the NZAuASB questions the need to use both terms.

- (e) Do you support the revised definition, and related material, on the determination of **'significant risks'**? **What are your views on the matters presented in paragraph 57 of the** Explanatory Memorandum relating to how significant risks are determined on the spectrum of inherent risk?

The NZAuASB supports the revised definition, and related material, on the determination of **'significant risks'** noting that supporting the assessment of the likelihood of occurrence of risk of material misstatement can be particularly difficult for auditors in practice. The NZAuASB is therefore of the view that more guidance on how the auditor should assess the probability to support this assessment would be useful.

In relation to matters presented in paragraph 57 of the Explanatory memorandum the NZAuASB's views are as follows.

The proposal discussed in the paragraph 57 of the Explanatory memorandum requires the auditor to focus on risks that may have a high magnitude but a low likelihood and also on risks that have a high likelihood but a low magnitude. The NZAuASB does not agree that all of these risks would necessarily achieve the objective of the upper end of the spectrum of risk, rather would broaden the identification of significant risks much further along than **at the "upper end" of the spectrum**.

The feedback that the NZAuASB has received on this matter indicates potential for inconsistent application of this requirement in practice.

While the NZAuASB supports a focus on the nature of the risk rather than the response to the risk it considers that auditors would best focus on risks for which there is a high likelihood AND high magnitude. The NZAuASB also believes further application material in ED-315 and/or additional non-authoritative guidance may be needed to illustrate the practical application of this matter.

7. **Do you support the additional guidance in relation to the auditor's assessment of risks of** material misstatement at the financial statements level, including the determination about how, and the degree to which, such risks may affect the assessment of risks at the assertion level?

The NZAuASB supports the additional guidance on **the auditor's assessment of risk of material misstatement** at the financial statements level. The feedback received from the NZAuASB's constituents indicates that additional examples of risks of material misstatement at the financial statements level (in addition to the commonly used fraud risk) is welcome. Similarly, additional examples **to illustrate the auditor's response to the identified risks of material misstatement at the financial statements level** is likely to enhance the understandability of ED-315 in this relation.

8. What are your views about the proposed stand-back requirement in paragraph 52 of ED-315 and the revisions made to paragraph 18 of ISA 330 and its supporting application material? Should either or both requirements be retained? Why or why not?

The NZAuASB considers that the addition of a stand-back requirement is useful and will promote a more robust framework to ensure that all relevant assertions are addressed in the audit.

The NZAuASB has received mixed feedback in relation to whether the stand-back requirement in paragraph 18 of ISA 330 is needed.

Those in favor of removing the stand-back requirement in ISA 330 are of the view that with a comprehensive and enhanced risk assessment and a stand-back requirement in ED-315, the stand-back requirement in ISA 330 is redundant. A robust risk assessment process concluded with a stand-back requirement that prompts the auditor of an entity to explicitly consider if they have omitted any risk of material misstatement for all material classes of transactions, account balances or disclosures is sufficient.

Others believe that since the stand-back requirement in ISA 330 requires auditors to perform substantive audit procedures over material classes of transactions, account balances or disclosure, even when the auditor has not identified any related risks of material misstatement, it is not equivalent to the stand-back requirement in paragraph 52 of ED-315 (which prompts auditors to perform procedures if there is a risk of material misstatement). They believe that removing the stand-back requirement in ISA 330 will adversely impact audit quality as the auditor's risk assessment may fail to appropriately identify all risks of material misstatements. They believe the stand-back requirement in ISA 330 acts as a counter measure to that possibility.

The NZAuASB is of the view that should the size of account balances, classes of transactions or **disclosures be included as an 'inherent risk factor'** (as suggested in the NZAuASB response to question 6(b) above) in ED-315, there will be a stronger case for removing the stand-back requirement of ISA 330. This is because considering size as an inherent risk factor is likely to substantially address the concern that material account balances, classes of transactions or disclosure may be left out.

Conforming and Consequential Amendments

9. With respect to the proposed conforming and consequential amendments to:
 - (a) ISA 200 and ISA 240, are these appropriate to reflect the corresponding changes made to ISA 315 (Revised)?
The NZAuASB considers the proposed conforming amendments appropriate.
 - (b) ISA 300, are the changes appropriate in light of the enhancements that have been made in ISA 315 (Revised), in particular as a consequence of the introduction of the concept of general IT controls relevant to the audit?

The NZAuASB considers the proposed conforming amendments appropriate.

- (c) The other ISAs as presented in Appendix 2, are these appropriate and complete?

The NZAuASB considers the proposed conforming amendments appropriate and complete.

- (d) ISA 540 (Revised) and related conforming amendments (as presented in the Supplement to this exposure draft), are these appropriate and complete.

The NZAuASB considers the proposed conforming amendments appropriate and complete.

10. Do you support the proposed revisions to paragraph 18 of ISA 330 to apply to classes of **transactions, account balances or disclosures that are 'qualitatively or quantitatively material'** to align with the scope of the proposed stand-back in ED-315?

Yes. The NZAuASB supports this proposed revision.

Request for General Comments

11. (a) Translations

- (b) Effective Date

The NZAuASB has no comment on potential translation issues.

The NZAuASB supports an effective date of approximately 18 months after approval of the final ISA with early application permitted and encouraged. We believe that 18 months allows sufficient time for national due process.

Auckland roundtable discussion (6/09/2018)

General Comments

Introductory material very useful, especially as not linear as written in the standard.

Flowcharts and diagrams very useful – help visual people to navigate the standard.

One comment on the structure – IT pieces seem to be stuck on the end – maybe integrate more?

Support that the standard makes it clear that if you have not tested controls, CR is at a max.

Scalability

Length may be a roadblock – difficult to read may further drive smaller auditors out of the market (decrease licensed auditors even more).

Was concerned around signalling smaller and less complex – not a 2 tier structure – should be based on risk not size or complexity.

NZ example of forestry scheme – only 1 way to audit – maybe don't do (or need to do) all the shall requirements. Risk is valuation – do work to address this risk. FMA more lenient if not ticked all the shall requirements as long as done the audit work to address the valuation of the forest is addressed (i.e. the regulator is scaling the standard). Risk assessment does not change for this entity.

FMA will be expecting more documentation on file as a result of the ED.

If IT is not critical – very quickly get to substantive approach.

(i.e. intent is that you only do the shall where applicable)

But why need to get the understanding if won't change anything (CR is at max)

Get a superficial understanding – better to tailor the audit response. Maybe do more discovery sampling rather than just default o biggest sample size.

Big 4 perspective not going to change existing methodology

Support for suggestion to have non-authoritative guidance including examples of what would change if CR is at a max.

Relevant controls

Very important to understand what controls are relevant to the audit.

Test D&I : If read management accounts (skimming a little each year – may not be an effective control until someone takes something really large).

Need application controls or can't rely on general controls.

Correct that maybe have no relevant controls but always have to test controls over journal entries. (Comment was have to be pretty dumb to commit fraud through 1 large journal entry – rather adjust the process and do little bits repeatedly). However, point made that never underestimate the stupid fraudster.

Spectrum of risk

Logical – but why not use High medium and low? Auditors think in boxes but way in which firms label or describe the boxes differ, trying not to enforce 3 or 9 or 10 debate. Avoid arguing if it is a 6 or 7 etc.

The term itself is unlikely to drive consistency – firm methodology will need to support consistent application of concept – maybe a question for the smaller firms if they need more guidance.

While CR is a binary yes or no, IR is much more judgemental therefore more difficult to drive consistency. Key is to document judgements.

Inherent risk factors

Difficult to document number 5 (Bias and fraud). If person is dominating, how do you document that.

Maybe include size as a risk factor – then don't need para in ISA 330?

Likelihood and misstatement

Point reiterated that being interpreted in different ways. Across a little more to cover high magnitude – but not to the extent of no likelihood.

KPMG approach is to draw on an angle (another way to look at it again). Why skew it towards magnitude only (also likelihood but not at the extremes). Everyone understands this differently – the OR is problematic.

Standback and ISA 330

Regulator - keep ISA 330 para

What about larger items in the P&L – don't do more than simple ARP.

Stand back provision is good to cover holistically

If size is an IRF, then why need ISA 330 para?

Better to have it in one standard than having to cross refer to two places.

Other comments

Definition of application controls – includes physical controls. This is different to the way applications controls may be seen in the current technology environment.

“Off the shelf” package – can you just rely on it? Still need to have an understanding of general IT controls. Don't really expect auditor to go looking for risks in MYOB type package?

Can you have any ROMM at the financial statement level – does it not always come back to at the assertion level. Kept notion of ROMM at the financial statement level but does this exist? What would be the response to address ROMM at the financial statement level? Difficult to think of an example.

ED 315 Roundtable discussions (Wellington 30/08)

General comments Q1

Overall comment is ED Is an improvement towards meeting the objectives of the project.

The flowcharts are useful to assist in understanding, act like a roadmap. Queried whether this would be a part of the final standard and feedback was supportive of retaining the flowcharts when finalised.

Exposure draft is a long read, acts as a barrier to understanding. It was discussed whether it is possible to split the standard into two separate standards to make it easier to read. The counterview was that splitting the standard into two will not change anything of substance. The need for flowcharts and introductory material may suggest there is a structure problem. If it was sufficiently clear, you would not need these.

The requirements are ok but consider the application material to be too long.

To focus on iterative nature - maybe build that into the requirements more.

It is a complicated standard and hard to understand. Need to read more than once.

Scalability

Good attempt but remains a challenge. Lots of shall statements makes scalability challenging.

Auditor in this space - No different from extant standard – is potentially worse because it is less clear how the standard should be used for small audits (partly due to its increased length). As an example, the proposed standard is likely to be more difficult to read and understand by junior auditors.

Biggest challenge is there is more to read for the smallest audit.

Focus on a building block approach more. How to help the smaller practitioner more? Maybe use something like an asterisk (but not that symbol) to highlight para to read if small to quickly identify if something is relevant or not.

Para A167 only look at controls over journal entries as it may be the only relevant control for smaller and less audits was not understood by the attendees. Need to emphasize more. This is not clear enough.

Move A90 into requirements?

Q5 controls

While it makes common sense, seems sensible, to require an understanding of the control environment, on the other hand gaining that understanding does not change anything, set Control risk at maximum anyway so what difference does it make? It is not clear how this relates to or contributes to risk assessment, as you cannot set it above maximum. Need to explain why better and or provide examples of how this understanding impacts IR. If IR is before CR, then it is not relevant.

The standard requires you to set CR at maximum if you do not intend to rely on controls and tailor your procedures. But if your understanding shows that the control environment is poor, Intuitively, you would think you do more, but don't have to? So why get the understanding? Are poor controls an IR?

Need to better understand the difference between a client where there are no controls (very poor control environment) i.e. Is a control deficiency per para 43/44, as opposed to one where there are controls but small client so segregation of duties is always at risk, so decide to go substantive. Makes no difference to audit so why need to do this step?

Not really changed much.

Entity risk assessment process – auditor struggles to make connections between this process and the financial statements. Could make the connection more direct?

Definition of relevant control is different. Found para 39(e) confusing. Is it saying that the design is relevant to IR?

Why do D&I if CR is assessed as maximum?

Not clear on controls relevant to audit.

If just test controls over journal entries.....this is presuming there are controls.

Q6 Risk assessment framework

Yes sensible to split IR and CR and mostly already doing so. However there is sometimes a grey distinction between the two, so by separating may be making the distinction more important than previously.

Definition of IR is confusing, to say before controls. Other models refer to residual risk.

Useful to spell out the characteristics of inherent risk factors. Found quantitative and qualitative useful.

Significant classes - just assess risk, if remote don't do anything.

Magnitude **and** likelihood – mixed views on 'and' or 'or'. Not clear if it relates only to material misstatement or misstatement. Support for spectrum of risk and focus on the upper end, this reflects how it is done in practice. Unclear if this is too broad. Makes the auditor stop and think about the things they may be inherently biased against....i.e. Oh don't worry about that, it will never happen, because the unexpected does happen. But don't necessarily want to put too many things in significant risk bucket.

Standback provision

Regulator perspective ISA 330 para 18 is very important to drive good behaviour and maintain audit quality. Otherwise spend a very long time arguing about professional judgement and why or why not something was considered to be a significant risk. Forces auditor to do something about all material balances, which is good for audit quality.

On the other hand, if do a good risk assessment, why need a stand back provision?

Consider referring to engagement partner in the stand back requirement rather than the auditor.

Difference between material as used in ISA 330 and ROMM confuses many. What does material mean in ISA 330, some consider this as ROMM in which case not necessary.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 4.1
Meeting date: 24 October 2018
Subject: NSS meeting Sydney
Date: 10 October 2018
Prepared By: Sylvia van Dyk



Action Required



For Information Purposes Only

Agenda Item Objectives

For the Board to consider and provide feedback/thoughts/ideas on the draft NSS Vision and Mission document and the updated Draft Statement of Purpose document to be discussed at the NSS meeting in Sydney on 5 November.

Background

1. A national standard setters (NSS) meeting is to be held on 5 November prior to the World Congress of Accountants meeting in Sydney.
2. The Sydney meeting follows the initiative taken by the NZAuASB and AUASB chairs at the IAASB's annual NSS meeting in May, to explore the potential for NSS to collaborate and work more effectively together in their interactions with the IAASB. The initiative is strongly supported by the IAASB and its retiring Chair.
3. There has been ongoing collaboration with the AUASB and the Canadian Auditing and Assurance Standards Board (CAASB) on a number of topics, including planning for the Sydney NSS meeting.
4. The NZAuASB and AUASB Chairs and AUASB Director have drafted a NSS Vision and Mission document for discussion at the Sydney NSS meeting. The draft document will be discussed with the CAASB Chair next week to obtain his input before finalising it for the NSS meeting. The CAASB Chair has indicated that he will also attend the Sydney NSS meeting, which will provide a good opportunity to provide a united voice as to how we can work together and present a good role model for other NSS going forward.
5. Currently representatives from India, Japan, Germany, France and the Netherlands have also accepted the invitation to the Sydney meeting. The outgoing IAASB Chair and the Deputy Chair will be there, and there is a good chance that the incoming Chair, Marty Baumann, will also attend.

Matters to Consider

6. The draft NSS Vision and Mission document is available at agenda 4.2 and the updated 'Statement of Purpose of the IAASB and National Auditing Standard Setters Liaison' (originally developed in March 2006) is at agenda item 4.3.
7. Other documents that may be helpful in formulating views and ideas and aid the discussion of the above documents are the following:
 - A Model for National Standard Setters from the AASB in 2014 and
 - The IASB's Charter.

Recommendations

We recommend the Board consider the draft NSS Vision and Mission document and the Statement of Purpose document and provide any thoughts/feedback/ideas on the proposals.

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	Draft NSS Vision and Mission document
Agenda item 4.3	Statement of Purpose

For reference:

Agenda item 4.4	A Model for NSS from the AASB
Agenda item 4.5	The IASB's Charter

NATIONAL STANDARD SETTERS - DRAFT VISION AND MISSION

FOR DISCUSSION - NOVEMBER 2018

Our vision is to create a recognised network of like-minded National Standard Setters (NSS) that collectively share knowledge and work together cooperatively on common auditing and assurance issues.

This cohort will investigate and facilitate opportunities to engage with one another and collaborate on strategic matters as well as specific projects.

We will establish a mechanism to engage regularly with the IAASB and other relevant international organisations on global auditing and assurance matters.

There are three components to this vision:-

1) Working together as an international collective

This will involve continuing to work with the IAASB through the annual meeting of invited NSS, as well as developing a structure and a network to facilitate dialogue across a broader range of like-minded NSS, both globally and through regional approaches.

To aid our approach as to how this may be structured, the following two documents from the accounting standards community (attached), may be useful:

- A Model for National Standard Setters from the AASB in 2014 and
- The IASB's Charter.

2) Working together regionally

We envisage that in the first place we explore the development of networks of like-minded regional national standard-setters (e.g. Asia-Pacific, based around existing collaboration activities being progressed by Australia, New Zealand and Canada). This will facilitate the seeking of expressions of interest, the development of dialogue, and the ability to meet regionally outside the annual meeting with the IAASB.

Successful interaction will require a commitment by one or more NSS in each region to provide organisational resources. Each group may need to develop its own governance structure, to ensure that strategic and collaborative opportunities are identified and taken up. A possible model that we can use is the equivalent structure used in the accounting standards community is the Asian-Oceanian Standard-Setters Group (AOSSG). Please find attached the MOU.

This interaction will ideally lead to the identification of opportunities for joint projects and sharing of resources. We are keen to identify and share where similar collaborative arrangements already exist. An example we are aware of is the arrangement between the AUASB and NZAuASB to ensure standards and guidance in both territories are consistent where legally and practically possible. This is governed by a 'Principles of Convergence and Harmonisations' agreement (attached) and build on the legislative mandate in each territory to adopt IAASB standards.

3) Working with the IAASB

The primary aim of the initiative is to find more effective ways for like-minded NSS, as a broad global group, to work effectively with the IAASB and influence its standard-setting activities (including its initial project identification and planning, and the development and implementation of standards). We envisage this will continue to centre around the annual NSS meeting with the IAASB, but with opportunities for the broader cohort to participate in the work.

The work could involve:

- work on joint projects for the benefit of the IAASB (For example, the signing partner project which has been scoped out of the ISA 220 Project)
- feeding information up the IAASB, for example in areas where the ISAs are seen to be deficient or requiring further clarity.
- offering to field-test proposed standards in a range of jurisdictions.
- undertaking specific projects or providing a summary of research that can inform any proposal to develop a standard.

Please find attached a revised 'Statement of Purpose of the IAASB and National Auditing Standard Setters Liaison' (originally developed in March 2006). This document remains conceptually sound, but could possibly be further developed to operationalise further collaboration and communication between the IAASB and NSS network.

Statement of Purpose of IAASB and National Auditing Standard Setters Liaison

Updated October 2018

Purpose

The International Auditing and Assurance Standards Board (IAASB) and the national auditing standard setters (NSS) acknowledge that cooperation and collaboration through an open, two-way communication process is essential to the common goals of promulgating high quality international and national standards, and promoting convergence of those standards, in the public interest.

The IAASB and participating national auditing standard setters achieve cooperation and collaboration by:

- Sharing knowledge on matters affecting international convergence and on international and national developments affecting the priority of topics on future standard setting agendas.
- Optimizing the process of bringing the strengths of the IAASB and national auditing standard setters to bear on the achievement of the common goal of reaching consensus and convergence in standards at an early stage in their development.
- Achieving closer cooperation and strengthened communication such that opportunities for closer collaboration on projects, leveraging of resources, further development of staff skills, and minimizing duplication can be identified.
- Achieving wider involvement by national auditing standard setters in IAASB task forces, or to assist such work, or to advance research agendas, as ways of enhancing the liaison between the IAASB and national auditing standard setters, assisting with standard-setting technical agendas, and in promoting efforts towards convergence.

Who

For purposes of this liaison, the group of national auditing standard setters comprises standard setters that:

- Are significantly active in the development of national auditing standards, or by way of contributing to the development of International Standards on Auditing (ISAs);
- Have adopted or plan to adopt ISAs, or are demonstrably committed towards the achievement of convergence of international and national standards;
- Are sufficiently resourced to participate actively in collaborative efforts identified through the activities of the liaison group; or
- Represent the world's largest economies.

Current jurisdictions that make up the group of national auditing standard setters included in this forum are:

- Australia
- Brazil
- Canada
- China

- France
- Germany
- Hong Kong
- India
- Japan
- Mexico
- The Netherlands
- New Zealand
- Nordic Federation
- South Africa
- United Kingdom
- United States

The group of national auditing standard setters that liaise with the IAASB may vary over time, as determined by the IAASB.

In addition this group, of national auditing standard setters may also coordinate with other national auditing standard setters in their region to ensure the views of all national auditing standard setters are communicated with the IAASB.

How

The IAASB and participating national auditing standard setters achieve cooperation and collaboration through the following activities:

1. Meeting annually in a central location (usually Europe) to facilitate the IAASB/NSS purpose. The meeting is organized by the IAASB with input by national auditing standard setters on the agenda and priorities
2. Having NSS representatives play a leading role in driving the IAASB's Innovation Working Group. The objective of the Innovation Working Group is to explore emerging developments in the audit, assurance and related services fields for the purpose of assisting the IAASB in identifying opportunities for relevant and effective standard setting, or determining other potential actions, in a timely and informed manner.
3. Identification and implementation of opportunities for collaboration between the IAASB and NSS representatives on relevant international auditing and assurance projects, aimed at leveraging of resources, further development of staff skills, and minimizing duplication by NSS.
4. Where relevant, and in accordance with IAASB due process, involving NSS representatives in IAASB task forces and other IAASB research and outreach activities.

A Model for National Standard-Setters

Introduction

Purpose

- 1.1 This Model for National Standard-Setters (NSSs) is designed to provide a basis for a NSS to maximise its contribution to the quality of general purpose financial reporting, particularly through participation in the development of high-quality global accounting standards issued by the International Accounting Standards Board (IASB). This is consistent with the public interest role of a NSS (and the IASB¹) that is aimed at serving users of financial reports in their economic decision-making.
- 1.2 The mandates of NSSs vary and NSSs are at different stages of development. This Model could be used as a basis for improving or setting up standard-setting capacity through a NSS (in terms of status, structure, means and resources) in a way that suits its mandate, legal, institutional and economic environment to act in the public interest.
- 1.3 Accordingly, this Model sets out concepts that should underlie the activity of accounting standard-setting and the key characteristics to which:
 - (a) standard-setters might aspire; and
 - (b) parties with a NSS oversight function could choose to refer in making decisions about, or evaluating the activities of, a NSS.
- 1.4 This Model does not purport to describe current practices adopted by NSSs. This Model will be revised from time to time on the basis of the experience of NSSs working with it, and as expectations of NSSs evolve. The Model is written primarily for NSSs in jurisdictions that are committed to the adoption of IFRS for publicly accountable entities (see paragraph 1.9 below). However, it is also intended to be useful for NSSs in jurisdictions that have not yet committed to adopting IFRS or have standard-setting authority that extends to entities that are not currently addressed by the IASB. Furthermore, it might be useful for other bodies involved in the standard-setting process, such as bodies that monitor, fund or oversee NSSs, or bodies that assess IFRS for adoption in their jurisdiction for the purposes of making recommendations to the legislature.
- 1.5 Not all NSSs are established with the powers and resources to achieve some or all aspects of this Model. Accordingly, aspects of this Model might be adopted

1 Paragraph A1 of the [Report of the IFRS Foundation Trustees' Strategy Review IFRSs as the global standard: Setting a strategy for the Foundation's second decade](#) (February 2012), states: "... the IASB should develop financial reporting standards that provide a faithful portrayal of an entity's financial position and performance in its financial statements. Those standards should serve investors and other market participants in making informed resource allocation and other economic decisions. The confidence of all users of financial statements in the transparency and integrity of these statements is critically important for the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth."

incrementally, although on some aspects desirable minimum characteristics of a NSS are identified.

- 1.6 To varying degrees, all NSSs could improve in relation to most of the aspects identified in this Model. Accordingly, as circumstances permit, a NSS should strive to achieve the ideals in the Model, and might use the Model as a basis for obtaining resources for standard-setting activities. This Model is intended to be generic in nature in the sense that a NSS would need to evaluate the feasibility of, and timing associated with, implementing the aspects identified in this Model in the context of its own particular circumstances.
- 1.7 The interrelationship between this Model and the Charter: The IASB and other accounting standard-setters *Working together to develop and maintain global financial reporting standards* ('the Charter') means that any future revision of one of these documents might provide insights into the revision of the other. For example, any revisions to the manner in which emerging issues are identified and dealt with as described in paragraphs 5.21 and 5.25 of this Model could lead to revisions to the comments about the Implementation of IFRS in the Charter.
- 1.8 To the extent feasible, this Model and the Charter should be consistent, while acknowledging that the Model is aspirational and the Charter is focused on best practice for NSSs given their current capacity.

NSS context

- 1.9 Different NSSs are at different stages of adopting IFRS for publicly accountable entities, including:
 - (a) bringing local GAAP into closer alignment with IFRS, with a view to adopting IFRS at some unspecified date in the future;
 - (b) preparing for adoption of IFRS from a specified future date; or
 - (c) having adopted IFRS.²

NSSs are encouraged to adopt/endorse IFRS without 'carve outs'.

- 1.10 As indicated in paragraph 1.1, this Model presumes that the public interest is a unifying focus of all NSS (see paragraphs 4.3 to 4.5), which is consistent with the objectives in the Constitution under which the IASB effectively operates.³ Furthermore, this Model presumes that there is sufficient commonality between the public interest at the local and global levels such that pursuit of global public interest is consistent with local public interest.

2 A jurisdiction might have adopted IFRS with additions or 'carve outs', for example, where there is currently a potential conflict with jurisdictional legal requirements imposed on a NSS. In this respect, see Section 6 of this Model on Relationships with others in the regulatory framework.

3 [IFRS Foundation Constitution \(January 2013\)](#) – see, in particular, paragraph 2(a)

1.11 A NSS forms a key part of the financial reporting regulatory framework within its jurisdiction. Irrespective of the stage of IFRS adoption that a jurisdiction has reached, a NSS's activities, together with the IASB's activities where relevant, might include⁴:

- (a) undertaking research that is of interest to a range of jurisdictions;
- (b) seeking input from local or regional stakeholders (including users, preparers, auditors and regulators) and ascertaining their needs, and communicating the findings to the IASB;
- (c) facilitating IASB outreach activities in a jurisdiction or region;
- (d) disseminating information from the IASB to local or regional constituents and providing feedback to the IASB;
- (e) translating IFRSs into a local language;
- (f) educating constituents on matters relating to financial reporting;
- (g) incorporating IFRS, or advising on or endorsing the incorporation of IFRS, into the local regulatory framework;⁵
- (h) promoting the rigorous application of IFRS in a jurisdiction or region;
- (i) identifying implementation issues from a range of stakeholders' perspectives, and providing feedback to the IASB if necessary, or producing local guidance if the issues are jurisdiction-specific;
- (j) undertaking effect analyses and post-implementation reviews;
- (k) developing and maintaining relationships with local regulators: and
- (l) setting accounting standards for entities within the NSS's jurisdiction before IFRS is adopted or for entities outside the scope of IFRS once it is adopted.

These roles have the potential to enhance the quality of accounting standards and therefore financial reporting. Many of these, and other, roles are discussed in the remaining sections of this Model.

Structure of this Model

1.12 This Model is structured around the following aspects of a NSS:

- (a) focus/objective;
- (b) subject entities;
- (c) qualitative characteristics;
- (d) due process; and
- (e) relationships with others in the regulatory framework.

4 These roles are consistent with the roles of NSSs described in the [Charter: The IASB and other accounting standard-setters Working together to develop and maintain global financial reporting standards](#) (issued April 2014).

5 This may be done at a national level or at a regional level with a NSS making an indirect contribution to this activity in concert with other NSSs.

- 1.13 Where relevant, the following discussion includes consideration of the IASB context, prior to providing a NSS perspective.

Focus/Objective

IASB context

- 2.1 The IASB's *Conceptual Framework* focuses on general purpose financial reporting, and IFRS aim to result in information useful to those who are unable to command the particular information they need for decision making.⁶
- 2.2 The IASB's objectives focus on financial reporting for users in capital markets making economic decisions. To date those objectives have been typically read as relating only to private sector reporting entities.⁷

NSS context

- 2.3 The focus and objective of a NSS generally depend on the mandate it has in its jurisdiction and the resources it has available. Accordingly, a NSS might focus exclusively on private sector for-profit entities⁸ or have a broader focus also covering entities in other sectors.⁹
- 2.4 Subject to its mandate, a NSS may choose to take a leadership role in exploring the horizons of accounting standard-setting and potentially go beyond the conventional areas of activity.
- 2.5 References to 'constituents' and to 'users' in this Model should be read in the context of the mandate of each NSS, unless the terms are used in the context of the IASB's current focus.

6 *The Conceptual Framework for Financial Reporting* (2010), paragraphs OB1-OB5.

7 The [Report of the IFRS Foundation Trustees' Strategy Review IFRSs as the global standard: Setting a strategy for the Foundation's second decade](#) (February 2012) also makes clear that the IASB's scope of activities is currently private sector entities – see, in particular, paragraph A4. It is relevant to note that the IASB and IFAC have entered into a [Memorandum of Understanding](#), announced on 22 November 2011, in which they agree to strengthen their co-operation in developing private and public sector accounting standards.

8 References to private sector for-profit entities in this Model are to non-governmental private entities, including publicly-traded and non-publicly-traded private entities. References to public sector entities are to governments and entities controlled by governments.

9 The IASB's mandate includes private sector for-profit and private sector not-for-profit entities.

Subject entities

IASB context

- 3.1 The IASB is unable to require entities to prepare financial reports or apply IFRS. That is a matter for local or regional jurisdictions.
- 3.2 The IASB has made it clear that general purpose financial statements of publicly accountable entities should be prepared using (full) IFRS and that general purpose financial statements of non-publicly accountable entities may be prepared using the *IFRS for SMEs*. This Model is intended to apply whether or not a jurisdiction adopts IFRS or the *IFRS for SMEs*, because this Model is concerned with standard-setting as an activity.

NSS context

- 3.3 Like the IASB, many NSSs provide the standards that are then required to be applied by another authority, often through legislation, with compliance regulated by authorities such as a securities commission.
- 3.4 However, a NSS is often involved in helping to determine the entities that use its standards. A NSS has a role in maintaining the reputation of its standards and, by implication, determining the use of its standards, for example, through consultation with regulators (see section 6).
- 3.5 A NSS might also adopt or produce distinct sets of reporting standards that cater to the needs of non-publicly accountable entities that prepare general purpose financial statements. If applicable to the assessed needs of the NSS jurisdiction, the NSS may use the *IFRS for SMEs* directly as a basis for developing those other sets of reporting standards.
- 3.6 In addition, a NSS might adopt or produce sets of standards for application by not-for-profit entities in the private or public sectors. Such a NSS could consider using IFRS or International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC)¹⁰ directly or as the foundation for those sets of standards.

10 Currently there are two sets of international accounting standards – one issued by the IASB (with a focus on for-profit entities) and one issued by the IPSASB (with a focus on not-for-profit public sector entities). The two sets overlap considerably as many IPSAS are drawn primarily from IFRS. The particular circumstances of a NSS's jurisdiction will determine whether users of financial statements of not-for-profit entities, whether in the public or private sectors, are best served through accounting standards based on IFRS or IPSAS or some other basis. As noted in the footnote to paragraph 2.2, the IASB and IFAC have entered into a [Memorandum of Understanding](#), announced on 22 November 2011, in which they agree to strengthen their co-operation in developing private and public sector accounting standards.

Qualitative characteristics

- 4.1 A NSS should aspire to the following fundamental qualitative characteristics:
- (a) acting in the public interest and being neutral and objective;
 - (b) independence;
- and the following enhancing qualitative characteristics:
- (c) competence;
 - (d) effectiveness; and
 - (e) efficiency.
- 4.2 In relation to these characteristics, it is notable that the themes of public interest and independence pervade the IFRS Foundation Constitution, and that the other characteristics are among the criteria for IASB members included in that Constitution (also see footnote to paragraph 4.9).

Acting in the Public Interest and being Neutral and Objective

- 4.3 High-quality accounting standards serve the public interest. They focus on the needs of users who require high-quality general purpose financial reports to reduce their information risk. They help protect the interests of investors through transparency, encourage the creation and development of capital markets, and facilitate efficient resource allocation in both the private and public sectors (depending on the mandate of the NSS).
- 4.4 Accordingly, NSSs should aim to be neutral and objective in serving legitimate user needs; for example, in developing proposals and dealing with stakeholders' comments on those proposals, which should be based on genuine concern for the usefulness and costs and benefits associated with proposals. That will involve a NSS having a responsive due process (see section 5 below) in order to obtain sufficient information to enable it to make an objective assessment.
- 4.5 NSSs should avoid being an instrument of other policy objectives that conflict with the objective of general purpose financial reporting. For example, the main role of a NSS would not normally be setting standards for the preparation of special purpose financial statements that another regulator, such as a prudential regulator, could demand and that contain information tailored to that regulator's particular needs.

Independence

- 4.6 An independent NSS is one that is able to act credibly in the public interest and approach topics in a neutral manner in pursuit of the objective of general purpose financial reporting, rather than other objectives that may be driven by vested interests. The 2009 recommendations of the Financial Crisis Advisory Group (FCAG) emphasised the importance to the financial system of a credible,

independent standard-setter.¹¹ Although the FCAG's focus was on the IASB and Financial Accounting Standards Board (FASB), the same issues of credibility face all NSSs.

- 4.7 Ideally, a NSS is established as an organisation that is independent of the entities for which it sets standards. However, in conducting its activities, a NSS will have relationships with entities and parties who might be regarded as having a vested interest in the outcomes of the standard-setting process, such as professional accounting bodies, preparer representative groups, auditors or governments. This is because they are key sources of a NSS's information and may also be the providers of resources (including funding, staff secondments and volunteer board members).
- 4.8 Nevertheless, those relationships should not be allowed to compromise the independence of a NSS. A NSS should document and implement policies and procedures that set out responsibilities and accountabilities that help ensure it remains independent in its decision-making and is seen to remain independent, despite receiving inputs or resources from key constituents. The NSS might generate those policies and procedures itself or it may be done through an oversight body. A number of the remaining sections of this Model deal with different aspects of these responsibilities and accountabilities.
- 4.9 Members of NSS boards should be appointed for their competence, [including technical competence (see paragraphs 4.11 to 4.13), analytical ability, communication skills, judicious decision-making and awareness of the financial reporting environment] and not on the basis that they are the representatives of any particular constituency.¹² The range of skills needed on a board will often involve drawing on qualified members from particular constituencies.
- 4.10 A NSS's oversight body, if there is one, should be independent of the NSS's technical decision-making. That would not preclude some linkage between the oversight body and the NSS (for example, the NSS Chair might be a member of the oversight body and assist in keeping its knowledge of the NSS up-to-date).

11 "To develop standards that are high quality and unbiased, accounting standard setters must enjoy a high degree of independence from undue commercial and political pressures," ([Report of the Financial Crisis Advisory Group, July 2009](#), page 2). The [Exposure Draft of IFAC Policy Position Paper #4 A Public Interest Framework for the Accountancy Profession \(November 2010\)](#) also emphasises the significance of independence for standard setters (among others).

12 The [IFRS Foundation Constitution \(January 2013\)](#) criteria for IASB members are demonstrated technical competence and knowledge of financial reporting, ability to analyse, communication skills, judicious decision-making, awareness of the financial reporting environment, ability to work in a collegial atmosphere, integrity, objectivity and discipline, and commitment to the IFRS Foundation mission and to the public interest [Annex, Criteria for IASB members].

Competence

- 4.11 Standard-setting involves bringing together concepts, precedent, practice and change-management. It requires knowledge (of the literature, practice, industries, regulation and economics, finance, government and many other matters), technical skills, rigour and strategic planning. It is unlikely that individuals with all of those attributes are to be found and so a NSS usually has members with a blend of skills and backgrounds, including in standard-setting itself. A NSS is often supported by professional staff (who can be topic specialists or standard-setting generalists) and by advisory panels and consultative groups.
- 4.12 In order to acquire and retain competent people over the long term, a NSS should provide opportunities for ongoing education and training. Staff skills can be updated and developed through a variety of means, including rotation, secondments, staff exchanges, careful project management and by providing or assisting with a career path.
- 4.13 A NSS should also seek to access the expertise of academics and other researchers and be a positive influence on the teaching of skills related to financial reporting.

Effectiveness

- 4.14 A NSS should be aware that financial crises and corporate failures tend to re-focus attention on financial reporting and financial reporting's significance in helping to maintain confidence in the world financial system. To be effective, a NSS needs to respond appropriately to issues highlighted by such circumstances.
- 4.15 To the extent that a NSS's role involves effectively disseminating information from the IASB to local constituents and incorporating IFRS into the local regulatory framework, a NSS should work together with the IASB in communicating complex ideas to help ensure that they are readily understandable by constituents. This could involve providing a local context to help local understanding, such as identifying the types of entities or transactions that the NSS expects to be affected by particular IFRS requirements. A NSS should explain its aims and processes so that they are clear in the circumstances of its constituents, who may otherwise not appreciate why standard-setting in general can be complex and difficult to understand, and how it relates to their circumstances.
- 4.16 A NSS should carry out those projects that will be effective in improving financial reporting for users, whether at a jurisdiction level or together with the IASB. In respect of the latter, a NSS should have regard to its comparative advantage in certain areas as a means of maximising its effectiveness. For example, NSSs in jurisdictions with a high level of mining activity, agricultural activity or research and development activity are in an ideal position to inform the IASB of accounting issues and help develop possible global solutions in those areas.

- 4.17 Furthermore, a jurisdiction might be more effective on some projects when it works through a regional standard-setting body that is working on a particular project. In this regard, some of the regional standard-setting bodies have established topic-based working groups of member NSSs through which issues are considered.

Efficiency

- 4.18 Standard-setting processes, and the pace at which they take place, need to be commensurate with the challenges to be addressed. Stakeholders may, without adequate explanation, question the apparent speed, or lack of a NSS's speed, when acting to resolve controversial issues and achieve change, particularly when new transactions emerge or a financial crisis highlights apparent weaknesses in financial reporting. NSSs should aim to inform their constituents about the need for, and level of urgency of, change (whether because of improvements in standards or responses to economic circumstances) and the relevant processes for achieving that change.
- 4.19 A NSS should also aim to inform its constituents about the nature of global standard-setting to explain its response times on issues of interest (for example, when national GAAP is linked with IFRS and a NSS feels unable to act unilaterally on an issue).
- 4.20 A NSS should manage its resources carefully and engage in the most efficient manner possible with the IASB to facilitate high-quality global solutions to financial reporting issues. This may include harnessing resources from outside the NSS (for example, from academia) to engage in research that assists the standard-setting process in areas such as post-implementation reviews. It may also include NSS staff secondments to the IASB (see also paragraph 4.12) – which can provide an efficient way to forge links between a NSS and the IASB, and among NSSs. Such links help to extend and strengthen networks of useful contacts among staff at NSSs and the IASB.
- 4.21 Efficiency also involves a NSS helping constituents to manage the pace of change. For example, when a jurisdiction adopts IFRS by incorporating them into local law, it should do so as soon as feasible as new and revised IFRS are issued. That may involve compiling standards for application at a particular date that suits the local jurisdiction, or translating them into a local language on a timely basis.
- 4.22 In dealing with emerging issues, a NSS can leverage its resources by working co-operatively with other NSSs (including regional bodies where appropriate) and achieve outcomes in a more effective and efficient manner than if it works in isolation. This may, for example, involve NSSs jointly producing issues papers for the IASB to consider, for example, through the International Forum of Accounting Standard Setters (IFASS) or the Accounting Standards Advisory Forum (ASAF), either as an IFASS participant or ASAF member, or as a member of a regional standard-setting body.¹³

13 The ASAF is an advisory group to the IASB, consisting of NSS and regional bodies with an interest in financial reporting. The principal purpose of the ASAF is to provide technical advice and feedback to the IASB.

[http://www.ifrs.org/The-organisation/Advisory-bodies/Pages/Accounting-Standards-Advisory-Forum-\(ASAF\).aspx](http://www.ifrs.org/The-organisation/Advisory-bodies/Pages/Accounting-Standards-Advisory-Forum-(ASAF).aspx)

- 4.23 As a minimum, before it commits resources to new projects, a NSS should consider working in co-operation with other NSSs and the IASB in a manner that enables the greatest efficiencies to be gained from the collective resources available.

Due Process

- 5.1 A robust due process should be designed to identify relevant conceptual and practical issues so that new and revised standards are of high quality in serving the needs of financial statement users.
- 5.2 The IASB's due process relies to some degree on the due process of NSSs.¹⁴ Accordingly, the more robust are the due processes of NSSs, the more beneficial they are to the IASB's overall due process and ultimately the quality of IFRS.
- 5.3 The adoption of a thorough due process in the development of accounting standards provides a basis for confidence in the integrity of the standards. A NSS's due process can provide a basis for the NSS having independence. There is a basis for independence to be sustained where stakeholders are able to understand the reasons for decisions and the manner in which a NSS has exercised judgements about matters such as costs versus benefits (see paragraphs 5.16 to 5.18) so as to promote confidence among stakeholders that their views are considered.
- 5.4 The need for a thorough due process relates to all stages of standard-setting – agenda setting, researching topics, making proposals, establishing transitional arrangements and post-implementation reviews. In setting agenda priorities, a NSS should give consideration to identifying projects it might conduct in co-operation with other NSSs or more directly with the IASB (see also paragraphs 4.16, 4.21 and 4.22). The insights into priorities a NSS gains through developing its own agenda should be communicated to the IASB as input to the IASB's development of its own agenda.
- 5.5 Each NSS that uses IFRS in some manner also should consider the extent to which the IASB's due process, including the NSS's participation in that due process, can fulfil local needs. A NSS will usually need to conduct additional due process with local constituents. This may occur because issues within proposals have different degrees of resonance in a local jurisdiction than may appear to be the case globally, or simply because a NSS is closer to its constituents than the IASB. This can mean views are conveyed through the efforts of NSSs that might not otherwise reach the IASB or may be more effectively expressed through the efforts of NSSs. In addition, a broader range of entities in the jurisdiction might be required to apply IFRS than is being contemplated by the IASB, such as non-publicly accountable entities or not-for-profit entities. This may bring perspectives that are also useful for the entities to which IFRS apply.

¹⁴ [Due Process Handbook, IASB \(February 2013\)](#) – see, in particular, paragraph 85.

- 5.6 A NSS should be supportive of the IASB process and may assist the IASB by engaging in joint outreach activities or facilitating (including hosting) outreach events in its jurisdiction or region, including roundtables, workshops and conferences. Support for the IASB due process might also include involvement with IFASS or the ASAF, either as an IFASS participant or ASAF member, or as a member of a regional standard-setting body.
- 5.7 For a NSS that adopts IFRS, its local due process should include steps that provide a basis for justifying its reliance on IFRS.

Transparency

- 5.8 Setting accounting standards in a transparent manner provides an environment whereby stakeholders can be fully informed of developments and can provide the NSS with insight into alternative views. Accordingly, due process should include a strategy for communicating with affected constituents about impending and recent developments. This should be geared towards the convenience of constituents – for example, an up-to-date website offering webinars and podcasts might be the most convenient way for constituents to remain informed. (See also the ‘Disclosure and accountabilities’ section below.).
- 5.9 In addition, a NSS should consider the merits of making its technical deliberations transparent, for example, by meeting in public, making agenda papers and summaries of decisions publicly available, and conducting roundtable discussions with stakeholders in public. There may be a need for compatibility with the approaches of the IASB if the input is to be of maximum use to it as well as to the NSS.

Disclosure and accountabilities

- 5.10 A robust due process, together with the qualitative characteristics discussed in section 4 above, helps support the independence of a NSS (see paragraphs 4.6 to 4.10) and can help reduce the need for outside accountability mechanisms to be imposed. A NSS should be openly accountable for its own performance in improving the information provided to users. Furthermore, a NSS should publicly disclose its work plans and report progress in achieving those plans as a means of demonstrating its performance.
- 5.11 A NSS should consult with its constituents about their project priorities so that there is a level of assurance that the NSS is applying its resources to helping to resolve the appropriate issues. Ideally, this would complement the work of the IASB (including the IFRS Interpretations Committee) and provide a basis for input to the IASB’s consultation (see also paragraph 5.4).
- 5.12 The level of resourcing provided to a NSS should also be made known, and the reporting of NSS activities should be sufficiently transparent to allow stakeholders to make judgements about the effectiveness and efficiency of a NSS.

- 5.13 Since standard-setting involves change management, a NSS should also be accountable for the change management strategies that it employs; in particular, how it manages the introduction of new and revised IFRS or other requirements that are expected to have significant impacts on reporting in the jurisdiction.
- 5.14 In some cases, the output of a NSS is made part of its jurisdiction's law, and the extent of accountability and transparency may be a function of a law-making process. A NSS should strive for an appropriate level of accountability and transparency within its own legal framework.
- 5.15 Consistent with the principle of transparency, when a NSS makes decisions on accounting standards, the NSS's basis for those decisions should be documented and published, including any alternative views and effect analyses that the NSS has considered in arriving at its conclusions. This would include any decision relating to the adoption of IFRS to the extent the NSS is involved in that decision. It might also include any dissenting views relating to decisions on accounting standards.

Cost-benefit assessment

- 5.16 Costs and benefits need to be assessed, most often in a qualitative, rather than a quantitative, manner.¹⁵ This is because there is no accepted methodology for quantitatively measuring costs to preparers and others affected by proposals in a manner that could be compared with the prospective benefits of information presented in financial reports to users. NSSs have to use their judgement and document their assessments.
- 5.17 A NSS in a jurisdiction that has adopted IFRS will usually need to consider the costs of applying each new and revised IFRS in the context of the benefits to be obtained as well as against the overall benefits of enabling entities to remain IFRS compliant.
- 5.18 The effect analyses prepared by IASB staff on particular new or revised IFRS may assist a NSS in making assessments of costs and benefits.¹⁶ Each NSS also needs to consider the extent to which an IASB effect analysis is likely to fulfil its local needs. A NSS may need to conduct specific cost-benefit assessments in addition to those contemplated by the IASB. In this context, a NSS is often guided by the feedback received from constituents as to the incremental costs that may be incurred in implementing newly issued or revised accounting requirements and the benefits that may be received. If NSSs gather this information prior to the IASB producing an effect analysis, it should be provided to the IASB to help ensure the IASB has input from various jurisdictions in undertaking its global effect analysis.

15 European Financial Reporting Advisory Group ([EFRAG Discussion Paper Considering the Effects of Accounting Standards](#) (January 2011) discusses the suitability of applying a cost benefit analysis to standard-setting (see in particular section 3, paragraphs 3.6-3.10).

16 For example, [Effect analysis – IFRS 11 Joint Arrangements and disclosures for joint arrangements included in IFRS 12 Disclosure of Interests in Other Entities](#), (IFRS Foundation, July 2011); [Effect analysis – IFRS 10 Consolidation Financial Statements and IFRS 12 Disclosure of Interests in Other Entities](#), (IFRS Foundation, Updated July 2013); and [Project Summary and Feedback Statement – Amendments to IAS 19 Employee Benefits](#), (June 2011).

Post-implementation reviews

- 5.19 Due process should also include post-implementation reviews to allow an avenue for dealing with implementation issues, to help ensure consistent application of standards and that the standards meet current needs. This could be undertaken in a co-ordinated way with the IASB. Accordingly, in jurisdictions in which the relevant requirements are IFRS or IFRS-based, NSSs should provide post-implementation findings to the IASB and/or work together with the IASB in its post-implementation reviews by facilitating access to relevant constituents.¹⁷

Emerging issues

- 5.20 A NSS should work with the IASB in the development of principle-based standards and help ensure communications about those standards can be understood in various jurisdictions. This is on the basis that the number of potential emerging issues relating to the application of specific IFRS can be minimised by ensuring that principles are clearly expressed and communicated. This should help reduce the need to create national variants on IFRS, such as through local interpretations.
- 5.21 Emerging issues relating to the application of IFRS should be identified by NSSs working with constituents and dealt with co-operatively through a network with other NSSs and the IASB. Ordinarily a NSS should seek the views of other NSSs (possibly as part of an International Forum of Accounting Standard Setters meeting agenda) on an emerging issue. This may lead to the issue being drawn to the attention of the IASB or IFRS Interpretations Committee for timely resolution in the context of the Committee's process for dealing with emerging issues.¹⁸
- 5.22 It should become evident through the process described in paragraph 5.21 as to whether an emerging issue is of widespread interest or of importance to only a few jurisdictions. This will assist in identifying those NSSs that are best-placed to provide any information or research assistance to the IASB or IFRS Interpretations Committee for timely resolution of the issue.
- 5.23 Given the underlying economics, few emerging issues would be unique to a jurisdiction. In some cases, particular circumstances prevailing in a jurisdiction, including the environment in which transactions take place, may validly lead to different financial reporting outcomes for the same types of transactions. Accordingly, a NSS should refrain from producing its own interpretations of IFRS, except when:
- (a) a NSS concludes, after having undertaken supporting research and the process described in paragraph 5.21, that an issue is jurisdiction-specific by virtue of the circumstances prevailing in that particular jurisdiction; or
 - (b) an interim solution is needed in a particular jurisdiction because the process described in paragraph 5.21 does not result in a timely outcome.

¹⁷ *Due Process Handbook*, IASB (February 2013) – see, in particular, paragraphs 6.52 to 6.63.

¹⁸ <http://www.ifrs.org/How-we-develop-Interpretations/Pages/The-IASB-and-an-Interpretation.aspx>

- 5.24 If a NSS ultimately decides to issue an interpretation, it should seek to obtain a reasonable level of confidence that it is not misrepresenting IFRS or causing problems for others. One means of assisting in this is to circulate the proposed interpretation to other NSSs.
- 5.25 The general principle under which each NSS should operate in relation to emerging issues is that, wherever possible, a NSS should support the IASB, rather than deviate from IFRS or provide jurisdiction-specific interpretations of IFRS.

Relationships with others in the regulatory framework

- 6.1 Other relevant organisations in a NSS's national regulatory framework could include securities regulators, professional accounting bodies, governments, auditing regulators and prudential regulators.
- 6.2 Without consistent regulation of compliance and assurance, even the best standards are unlikely to result in consistent high-quality financial reporting. Accordingly, a NSS should liaise with other relevant regulators and take whatever steps are feasible to help achieve consistency, even if that is limited to highlighting the effects that those regulators' actions may have on the quality of financial reporting. A NSS should be aware of the risk that government policy could impede the intent of standards, for example, as may occur when another regulator aligns taxation requirements with financial reporting requirements (which may cause some constituents' comments on financial reporting proposals to be driven by a desire for particular taxation outcomes and not necessarily the best financial reporting outcomes).
- 6.3 Government policy might affect a NSS in different ways. For example, a policy that promotes economic growth through deregulation might constrain a NSS from standard-setting. Because a NSS may be required to comply with its government's policies, it should endeavour to provide input to the formulation of policies that could impact financial reporting. Accordingly, a NSS should endeavour to explain to government policy-makers the implications of any policy that has the potential to adversely affect the quality of financial reporting and therefore the public interest. This Model focuses on the quality of a NSS's processes and therefore is not intended to imply that a NSS does not satisfy the qualitative characteristics described in section 4 if it is required to comply with a government's policy that is perceived to conflict with the objective of general purpose financial reporting.
- 6.4 In jurisdictions in which standards are part of a jurisdiction's law, the relationship between a NSS and its government should ideally be one that helps facilitate the timely and complete inclusion of standards into law.

Charter

The IASB and other accounting standard-setters

Working together to develop and maintain global financial reporting standards

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Background

1. This Charter sets out the understanding between the International Accounting Standards Board (IASB) and those accounting standard-setters and other accounting bodies that participate in the International Forum of Accounting Standard Setters (IFASS), referred to in this Charter as “other accounting standard-setters”. At its meeting in March 2014, IFASS reached a consensus in support of this Charter and agreed with representatives of the IASB that it should be posted on the IASB’s website to help clarify the IASB’s working relationship with other accounting standard setters. The IASB and IFASS recognise that this understanding could be applicable to a standard-setter that does not participate in IFASS.
2. Participation in IFASS is open to all standard-setters and bodies with functions such as:
 - (a) responsibility/authority to set accounting standards for a jurisdiction;
 - (b) responsibility for, or a direct role in facilitating, the setting of accounting standards across a number of jurisdictions in a region, or
 - (c) responsibility to assess IFRS (or standards set by another standard-setter) for adoption in its jurisdiction for the purposes of making recommendations to the legislature.
3. This Charter has been developed on the premise that it is essential that the IASB and other accounting standard-setters work together in a spirit of openness and close co-operation. The activities identified in this Charter are important in building and maintaining the relationship between the IASB and other accounting standard-setters.

The IASB

4. The IASB is the standard-setting body of the IFRS Foundation responsible for all technical matters including the preparation and publication of IFRS. For IFRS to be of high quality and to be globally accepted, they need to address the needs and requirements of users and preparers around the world. IFRS cannot be successful unless they are implemented and applied consistently across regions and jurisdictions. To achieve this, IFRS need to be developed using collaborative processes between the IASB and its stakeholders.

Accounting standard-setters

5. Most jurisdictions have local bodies that have important, specified and independent roles within their jurisdiction related to the development or endorsement, or both, of IFRS and other matters. Standard-setters' responsibilities vary, but might include, for example, the development of domestic accounting standards for entities that do not apply IFRS, taking a position on IFRS proposals, and recommending whether IFRS and changes to IFRS should be adopted. However, despite differences in specific responsibilities, they support the IASB's goal of developing a single set of high quality, enforceable global financial reporting standards.
6. Other accounting standard-setters perform activities similar to those of the IASB and have knowledge of local regulatory, economic and cultural factors which are important to the IASB when it develops, supports the implementation of and maintains IFRS. Accounting standard-setters interact with their local network of stakeholders, informing them about developments internationally. They also provide the IASB with a summary or synthesis of the views of their stakeholders and of the likely effects of the proposals within that jurisdiction, providing a context for the views of those stakeholders. This in turn helps the IASB to consider and compare the views and likely effects across different jurisdictions.
7. Accounting standard-setters engage in many activities, some of which may facilitate the adoption and on-going endorsement (where appropriate) of IFRS, such as translation, compliance with local legislative requirements, compilations of standards for a specific time period and consolidation of new or revised text. The document *A Model for National Standard-Setters* describes in more detail attributes and responsibilities of national standard-setters¹.
8. Accounting standard-setters are, therefore, both stakeholders in IFRS and an essential part of the IFRS network.

¹ IFASS discussed *A Model for National Standard-Setters* several times during its development by the Australian Accounting Standards Board and reached a consensus to support its stated purpose and its description of the activities of NSSs and the concepts that underlie them as IFASS concluded that the *Model* provides useful, though not mandatory, guidance for NSSs and bodies that oversee them.

International and regional groups and networks

9. Some accounting standard-setters have arrangements to share information, facilitate discussions, undertake research collectively, identify implementation issues, mentor less-developed accounting standard-setters and undertake other activities to support the development and implementation of IFRS. Other groups have been organised by standard-setters within a region and there are also international groups. Such groups include the EFRAG Consultative Forum of Standard Setters, the Asian-Oceanian Standard Setters Group, the Group of Latin American Standard Setters and the Pan African Federation of Accountants.
10. This Charter was developed primarily with individual accounting standard-setters in mind. The IASB does not anticipate interactions with international or regional groupings of such bodies as being at the expense of interactions with accounting standard-setters individually. On the other hand, these regional groups were established to make the interactions and activities of other accounting standard-setters more effective and efficient.
11. Some accounting standard-setters might choose to have their views or interests conveyed through a regional group in which they participate. Others might choose to convey their views to, and interact directly with, the IASB. Some may do both. The document *A Model for National Standard-Setters* sets out ways in which networks of accounting standard-setters can help make the development and implementation of Standards more effective and efficient.

IASB consultative bodies

12. The IASB has established a wide range of consultative bodies to ensure that it has access to preparers, investors, auditors and regulators (securities and prudential). Accounting standard-setters also are represented in many of these bodies, including the IFRS Advisory Council and project-related consultative groups.
13. The IASB has also established the Accounting Standards Advisory Forum (ASAF) to provide it with technical advice and feedback on its projects. ASAF is a group of nominated members from both accounting standard-setters and regional bodies involved with accounting standard-setting.
14. This Charter describes how IASB and other accounting standard-setters working co-operatively complements the work of these consultative bodies, benefitting the IASB and accounting standard-setters. The consultative bodies tend to focus on a specific project or aspect of the

IASB's activities and their meetings are generally held in public. The activities anticipated by this Charter are likely to be those undertaken on a day-to-day basis across a much broader range of activities.

The Charter

Purpose

15. The purpose of this Charter is to establish some key principles of co-operation between the IASB and other accounting standard-setters. These principles are designed to enhance the efficiency and effectiveness of international accounting standard-setting.
16. This Charter reflects the partnership between other accounting standard-setters and the IASB who all operate in the public interest. It draws from the commonality of their constituents, goals and activities whilst also building on their complementary differences and competencies.
17. This Charter describes the spirit and the manner by which the development of global accounting standard-setting activities is most likely to meet the shared goals of the IASB and other accounting standard-setters, and to maximise the satisfaction of the needs and requirements of each of the parties involved from their respective perspectives.
18. This Charter describes a shared understanding of the commitments and expectations of the IASB and other accounting standard-setters. As such it is a statement of co-operation that relies on the good faith and best endeavours of the parties rather than a binding contractual arrangement. The principles set out here focus on the practical aspects of staff and members of the IASB and other accounting standard-setters working co-operatively: they describe the actions and procedural matters that deserve the most care.
19. This Charter will be reviewed as experience or circumstances require.

Overarching principles

20. The IASB and other accounting standard-setters are committed to working:
 - (a) in close cooperation, while respecting independence;
 - (b) transparently and openly, including the sharing of information and, where deemed necessary, of resources;
 - (c) with mutual trust and respect; and
 - (d) with a sense of duty, responsibility and accountability for achieving the shared goal in the public interest.

21. The IASB and other accounting standard-setters have their respective due processes. Co-operation entails working together as much as possible in search of increased transparency, better mutual understanding and reduced costs for constituents whilst respecting each other's independent decision-making and specific responsibilities.. However, the IASB recognises that in adopting or endorsing IFRS other accounting standard-setters are likely to be relying at least in part on the completeness of the IASB's due process and the activities of the IFRS Foundation's Trustees' Due Process Oversight Committee.

A shared commitment

22. The IASB commits to:
- (a) actively engage with other accounting standard-setters and ensure that their views and feedback are faithfully and fully presented to the IASB as a substantive part of stakeholder outreach;
 - (b) provide the necessary liaison, communication and support between the IASB and other accounting standard-setters;
 - (c) respect the independence of other accounting standard-setters, recognising that they operate under their own specific jurisdictional mandates; and
 - (d) develop its outreach and fieldwork activities in as close co-operation as possible with other accounting standard-setters so as to limit the cost of consultation for constituents, insofar as its independence permits.
23. The IASB also undertakes not to undermine or compromise the existing legal rights and obligations of these bodies within their respective jurisdictions.
24. Accounting standard-setters commit to:
- (a) support and contribute to the IASB's role in the development of high quality, understandable, enforceable and globally accepted financial reporting standards;
 - (b) encourage input from constituents within their jurisdiction/regions, either to themselves or to the IASB directly, on the technical standard-setting activities of the IASB so that the IASB is in a position to understand all input relevant to its projects;
 - (c) periodically exchange information on the progress in the use of IFRS within jurisdictions around the world, to sustain a credible updated data base; and

- (d) respect the IASB's independence, by ensuring that their activities do not compromise or challenge the independence and integrity of the IASB and its duty to be the final authority on IFRS.
25. The IASB recognises that accounting standard-setters are not equally resourced, and some are able to make more substantial and regular contributions than others. The IASB also recognises that other accounting standard-setters in jurisdictions that have not chosen to adopt IFRS may still make substantial contributions to improved financial reporting internationally by participating in IFASS and other forums and providing input.

The IFRS Standard-setting Process

26. These principles are designed to ensure that the IASB has broad and relevant input on what its priorities should be, including identifying emerging implementation issues, and access to relevant and sufficient evidence and analysis at all stages of a project life cycle (including when it researches whether it should develop new financial reporting requirements, develops exposure drafts and IFRSs and undertakes post-implementation reviews).
27. Accounting standard-setters are essential to the IASB in achieving this outcome especially because the work they perform as part of their local mission and the work they perform in collaboration with the IASB helps ensure that the IASB considers matters that may be specific to their jurisdiction that could affect how a Standard is developed or how a Standard is being applied.

Cooperation among staff

28. Formal and informal contact at the staff level is very helpful to the IASB and other accounting standard-setters through all aspects of the development and implementation of IFRS.
29. Regular contact between the IASB and other accounting standard-setters, both on a bilateral and multilateral basis can help increase understanding and awareness and provide all participants with the opportunity to contribute to debates and the development of Standards. For example, having accounting standard-setters from a range of regions participate on calls with the IASB, such as part of a post-implementation review or discussion of a potential divergence in practice, can increase awareness of jurisdictional differences or differences in thinking.

30. The IASB and other accounting standard-setters can interact in a range of ways including maintaining a SharePoint portal, regular and ad hoc emails, conferences, regional forums, telephone exchanges and face-to-face meetings. The IASB will also assist other accounting standard-setters to communicate with each other, primarily through the SharePoint portal.
31. The IASB welcomes offers of staff assistance from other accounting standard-setters either through its *Visiting Fellows* programme or project specific secondments. To be effective, from both the IASB's perspective and that of the participating standard-setter, this involvement needs to be undertaken with a clear understanding of the staff member's role and responsibilities.

Evidence seeking and stakeholder engagement

32. The IASB bases its global standard-setting activities on evidence, gathering relevant information to support each stage of its work programme. Local input and evidence is important in all parts of the IASB work plan. As well as providing their own views and analysis, other accounting standard-setters provide access to, or convey the opinions of, local stakeholders through engagement as part of their own due processes, considering issues in the context of their jurisdiction. This helps the IASB understand different needs and be aware of the diversity of thinking about issues, at each stage of the process.
33. In a similar manner other accounting standard-setters collect evidence to support their own missions and responsibilities.
34. The IASB will regularly need to discuss IFRS issues with constituents in the various jurisdictions. Such discussions include those that will be instigated by the local constituents. It would be impracticable for the IASB to try to conduct all such discussions through the local standard-setter, just as it would be impracticable for the local standard-setter to apprise the IASB of all discussions it holds with its constituents about IFRS developments. However, both the IASB and other accounting standard setters should endeavour to ensure as much coordination of discussions as is practicable and to keep each other informed of relevant major issues that arise. Guidance is set out below to assist in coordinating efforts.

IASB Work programme

35. The IASB work programme has various components:

- **Agenda Consultation:** Establishing the priorities of the IASB over the coming three to five years.
- **Research Programme:** Developing research and discussion papers focused on identifying potential projects to improve IFRS.
- **Standards Programme:** Developing new Standards or major revisions to Standards (including the Conceptual Framework).
- **Supporting the implementation and Maintenance of Standards:** Developing narrow scope improvements, Interpretations and educational material and undertaking Post-implementation reviews.

Agenda Consultation

36. Every three years the IASB undertakes a review of its priorities in a public consultation on its work programme. Accounting standard-setters have an important role in helping the IASB identify areas where financial reporting needs to be improved. Both the IASB and other accounting standard-setters will need to discuss priorities with constituents, including through, but not limited to, co-ordinated formal due process.

Research Programme

37. The IASB maintains a research programme and actively seeks other accounting standard-setters to work with the IASB on individual projects. In working together it is important that the IASB and other accounting standard-setters have clear and shared project expectations. It is particularly helpful if the parties agree on:

- (a) the nature of the project, including its objectives;
- (b) the project scope;
- (c) the responsibilities and expectations of each party involved, including expectations about IASB use of the project output;
- (d) the process (including timing, milestones and formulation);
- (e) whether the project will contain views or recommendations, or whether it will present only an analysis of the facts; and
- (f) the output, including deliverables and who will own and/or publish the output, and what will be done with the output.

It is acknowledged that other standard-setters are free to choose to engage in research activities independently of the IASB, including research that may be intended to influence the IASB and the direction of IFRS development.

38. IFASS provides an opportunity for participants to share research they have initiated. This may assist those carrying out research by identifying views and approaches that can be developed further. The IASB also supports research initiated by other accounting standard-setters and will promote, via its website, research papers they produce.

Standards Programme

39. Accounting standard-setters are important contributors to the development of new standards. As well as the obvious contributions they make in terms of analysis and expression of their own views, accounting standard-setters are also able to provide input and evidence in a variety of ways, from a range of sources. Examples include:

- (a) Comment letters;
- (b) Focus groups, discussion forums and round table meetings;
- (c) Working groups and expert panels;
- (d) Academic and other independent research;
- (e) Critical analysis, analytical assessments, 'what if' analysis and data analysis;
- (f) Fieldwork with stakeholders;
- (g) One-to-one meetings, focus groups, surveys.

Effects analysis and field work

40. The IASB and individual other accounting standard-setters have procedures for considering how much weight to give to information and evidence they collect. The weight given is influenced by many factors including how directly they were involved in collecting or verifying the information and their confidence in how representative the evidence is likely to be in relation to a particular issue or target group.
41. Information gathered by one body, be it the IASB or another accounting standard-setter, is likely to be given more weight by the other body if the nature of that interaction is transparent.

Having personnel from the IASB and a local standard-setter work together in interactions with local stakeholders provides both parties with direct access to stakeholders, reduces duplication of effort and reduces the likelihood that a stakeholder will be asked for the same or similar information independently by the IASB and another accounting standard-setter .

42. In many cases local accounting standard-setters are well placed to undertake some of the analysis that will be relevant to the IASB as well as to themselves and to identify features that might be unique to a particular jurisdiction. Partnering between the IASB and other accounting standard-setters also provides the IASB with additional resources and expertise and is likely to avoid duplicating work (ie entities do not have to provide the same, or similar, information twice when effects analyses are being performed by different parties). Partnering will ensure that other accounting standard-setters play an active role in the standard-setting process.
43. The IASB and the other accounting standard-setters understand that stakeholders have the right to choose who they talk to. It is not always possible for the IASB and a local standard-setter to engage with stakeholders together. Sometimes a stakeholder will request an interaction with the IASB or a local standard-setter alone. The IASB and other accounting standard-setters may maintain open relationships with other stakeholders. The IASB and other accounting standard-setters are not precluded from having individual relationships with stakeholders and there should be no restriction on the ability of the parties to develop and maintain their own relationships. However, the IASB and other accounting standard-setters will make their best efforts to work together to improve the transparency of their interactions and to encourage stakeholders to also communicate openly with the other party.

References to IFRS (GAAP) in contracts, taxation and regulation

44. Although the IASB's objectives for financial reporting focus mainly on investors, it also understands that general purpose financial reports are used for many other purposes. General purpose reports are often referred to in contracts between banks and their business customers. Some jurisdictions link aspects of their taxation systems to amounts determined by financial reporting policies. Banking supervisors often use financial reported numbers as inputs when they assess financial stability. And some governments also use the reports for statistical and economic planning purposes.
45. It is not the responsibility of the IASB to meet the objectives of these other bodies. However, the IASB does have some responsibility for ensuring that bodies that use IFRS financial

statements are given the opportunity to assess how the IASB's standard-setting affects their own objectives and, when practical, to permit sufficient time for necessary changes to be made to the regulations to reflect changes in accounting. Any additional time needed would have to be balanced against the need to implement in a timely manner the improvement in financial reporting produced by the new standard.

46. The IASB has formal mechanisms for communicating with global bodies, such as IOSCO and the Financial Stability Board. However, other accounting standard-setters are likely to have more knowledge of the local implications of changes in financial reporting standards. The IASB relies on other accounting standard-setters to liaise with their local prudential regulators and, as they see fit, taxation authorities and other relevant bodies to ensure that those bodies are kept informed of the likely implications of potential changes to IFRS requirements.

Implementation and maintenance of IFRS

47. Consistent application of IFRS is more likely to be enhanced when other accounting standard-setters and the IASB work together. In this respect, other accounting standard-setters help their stakeholders understand new standards through various formats and, in doing so they may identify implementation issues.
48. The general principle under which other accounting standard-setters operate in relation to emerging issues is that, whenever possible, they support the IASB, rather than deviate from IFRS or provide jurisdiction-specific local interpretations of IFRS. The IASB and other accounting standard-setters work together to minimise the necessity for local guidance. The need for local guidance will be reduced if the IASB, with the IFRS Interpretations Committee, makes its best efforts to respond to the IFRS implementation issues of local jurisdictions in a timely manner.
49. Emerging issues relating to the application of IFRSs identified by other accounting standard-setters working with their constituents are dealt with co-operatively through IFASS and/or regional bodies, as appropriate, and the IASB. Ordinarily an accounting standard-setter would seek the views of other accounting standard-setters on an emerging issue it identified (possibly as part of an IFASS meeting agenda). This may lead to the issue being drawn to the attention of the IASB or IFRS Interpretations Committee for timely resolution in the context of the Committee's process for dealing with emerging issues. Accounting standard-setters would also ordinarily liaise with their local regulators in charge of IFRS enforcement on such issues.

50. It should become evident through this process whether an emerging issue is of widespread interest or of importance to only a few jurisdictions. This will assist in identifying those other accounting standard-setters that are best-placed to provide any information or research assistance to the IASB or IFRS Interpretations Committee for timely resolution of the issue.
51. Given the underlying economics, few emerging issues would be unique to a jurisdiction. In some cases, particular circumstances prevailing in a jurisdiction, including the environment in which transactions take place, may validly lead to different financial reporting outcomes for apparently similar transactions. Accordingly, an other accounting standard-setter would refrain from producing its own interpretations of IFRSs, except when:
- (a) an other accounting standard-setter concludes, after having undertaken supporting research and following the process described above, that an issue is jurisdiction-specific by virtue of the circumstances prevailing in that particular jurisdiction; or
 - (b) an interim solution is needed in a particular jurisdiction because the process described above does not result in a timely outcome.
52. If an other accounting standard-setter ultimately decides to issue an interpretation, it should seek to obtain a reasonable level of confidence that it is not misrepresenting IFRS or causing problems for others. One means of assisting in this is to circulate the proposed interpretation to other IFASS participants.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 6.1

Meeting date: 24 October 2018

Subject: NZ AS 1 The Audit of Service Performance Information

Date: 10 October 2018

Prepared by: Misha Pieters

<input checked="checked" type="checkbox"/> Action Required

<input type="checkbox"/> For Information Purposes Only

Agenda Item Objectives

To consider the feedback received in response to the fatal flaw draft of NZ AS 1 *The Audit of Service Performance Information*.

Background

1. The NZAuASB agreed to issue an amended draft standard at its July 2018 meeting seeking fatal flaw comments prior to finalising the standard.
2. The amended draft standard was made available on the XRB website on 3 August 2018. Emails were sent to all those who submitted on the first exposure draft, seeking feedback on the amended draft. We have also encouraged stakeholders to submit feedback via the NZAuASB newsletters and on social media and an article was written for the CA ANZ perspectives series, highlighting key matters and the amended draft open for feedback. The comment period closed on 1 October.
3. Five submissions were received in response to the fatal flaw draft. Editorial suggestions made in the submissions received are marked up in agenda item 6.3. Key matters identified are considered in agenda item 6.2. We seek feedback on both agenda items 6.2 and 6.3.

Next steps

4. The Board is asked to consider the submissions received and to agree the next steps to finalise the standard.

Material Presented

Agenda item 6.1	Board Meeting Summary Paper
Agenda item 6.2	Analysis of feedback
Agenda item 6.3	Mark up of draft standard
Agenda item 6.4	AUASB technical group submission

Agenda item 6.5	CA ANZ submission
Agenda item 6.6	OAG submission
Agenda item 6.7	Karen van Peurseem submission
Agenda item 6.8	KPMG submission

Analysis of feedback received in response to fatal flaw draft standard

1. We received five submissions in response to the fatal flaw draft amended standard. Four of the submitters commented on the first exposure draft and there was one new submitter. Feedback was mixed, with the majority supportive of the draft with some editorials to consider. One submission, from the Office of the Auditor-General (OAG), was not supportive of the draft.

Criteria

2. The biggest issue identified in the feedback received remains the way in which to describe the “applicable criteria” for the purpose of the assurance engagement.
3. In the first exposure draft the term “service performance criteria” was used and defined as follows:
“The benchmarks used to measure or evaluate the entity’s service performance. The entity’s service performance criteria include the goods and services reported and related performance measures and/or descriptions used for the particular engagement, adopted by the entity, applicable to its circumstances, with logical links to the entity’s overall purpose and strategies, in accordance with the applicable financial reporting framework”
4. Feedback received on this was mixed with the majority suggesting edits to make it clearer what was meant. However, the OAG was very much opposed to that term and it was apparent that there was a misunderstanding as to what was meant.
5. The NZAuASB therefore agreed to try to bridge the gap to the accounting standard and reversed the term and the definition around in the limited scope review draft as follows:
“Methods to measure, describe, aggregate, present and disclose the entity’s service performance – the applicable criteria used to measure or evaluate the entity’s service performance. The methods are entity specific, developed to tell the entity’s own performance story. The methods are required to be in accordance with the principles of the applicable financial reporting framework.”
6. CAANZ consider that this term (methods used to ...) “would benefit from being consistent with paragraph 44 of PBE FRS 48 Service Performance Reporting and refer to “select, measure, aggregate and present” instead. Paragraph A8 reinforces that ‘presentation’ includes whether the service performance information is clearly ‘described’, and ‘disclosures’ are prescribed by the applicable financial reporting framework, therefore these aspects are superfluous.”
7. The OAG highlight that this (methods used to...) is a new concept. “Unless there is a complete understanding of this concept by both preparers and auditors, and what this means for reporting and auditing service performance information, the inclusion of this concept in the proposed standard makes it unworkable”. The OAG considers this concept to be a problem because:
 - a. This is not a consideration for preparers of service performance information;
 - b. It is not a “standard” or “frame of reference” for all prepares and auditors of service performance information. Instead, it is an entity specific concept; and
 - c. It is not clear what it means.”

The OAG considers that the standard needs to refer directly to the qualitative characteristics and pervasive constraints in PBE FRS 48.
8. The NZAuASB has discussed on many occasions the need to describe the sub-level below PBE FRS 48 as the “criteria”. The challenge is to link this assurance term back to make it clear that this sub-level is about how the entity has applied the qualitative characteristics and pervasive constraints as described in the applicable financial reporting framework.
9. The developing guidance on emerging forms of external reporting (EER) by the IAASB EER task force has also tried to articulate this sub-level (refer to paragraphs 61-64 of agenda item 8.3). This makes it clear that criteria cover the definitions of relevant performance indicators, measurement or evaluation bases and other reporting policies, and more widely the whole basis of preparation of the report.

10. We have identified two possible options to resolve this matter:
 - a. Revert to the term “service performance criteria”; or
 - b. Make further amendments to the way in which the “methods” have been articulated.
11. We have revisited the words used in the limited scope draft. These do align with PBE FRS 48 but we have added the term “methods used” and the term “describe” and also make a distinction between “presentation and disclosure”.
12. The term “describe” was added to address concerns that the standard was overly focussed on measurement, to acknowledge that the accounting standard does not require measurement but also allows for performance measures and/or descriptions.
13. The distinction between presentation and disclosure has also been revisited by the Board, and while there was a view that the distinction is blurry, the Board agreed to retain the distinction as a result of the recent IAASB project on disclosures which has made that distinction clearer in the ISAs.
14. The term “method” was used to try to describe the fact that criteria refers to the way in which the service performance is evaluated. The Board has also tried to refer to reporting policies and basis of preparation but these options were not well received when tested with the accounting standards board/OAG.
15. It is also relevant to highlight that presentation and disclosure are considered to be a part of the criteria¹.
16. We have tried to identify ways to shorten or clarify what “criteria” means used in the amended draft (for example protocols instead of method) but consider that adding more words to try to explain what is meant is unlikely to help.
17. We highlight that paragraph 44 of PBE FRS 48 is referring to the judgements made (the why) and not the how, so while we can try to align with these words the intent is different. Another way to align to PBE FRS 48 would be to refer to the performance measures and/or descriptions.
18. A possible way to drop the term method and align somewhat to PBE FRS 48 would be as follows:

“Performance measures and/or descriptions and the aggregation, presentation and disclosure of the entity’s service performance information– the applicable criteria² used to measure or evaluate the entity’s service performance. The applicable criteria are entity specific, developed to tell the entity’s own performance story. The applicable criteria are required to be in accordance with the qualitative characteristics and pervasive constraints of the applicable financial reporting framework.”
19. We consider that this would be even longer and is unlikely to improve the understandability or readability of the auditing standard.
20. Complete alignment to PBE FRS 48 is not possible as PBE FRS 48 does not refer explicitly to “the how”, e.g. the reporting policies, basis of preparation etc, rather lays out a process for the entity to follow to develop its own how.
21. We recommend reverting back to “Service performance criteria” as this is the assurance language, is the term that will be used in the developing EER guidance and is simpler to use pervasively throughout the standard. We acknowledge that much work will be needed to educate and assist practitioners to understand what this means. We recommend that this could be done through FAQs and illustrative examples outside of the standard.
22. One example we have heard is about a charity that collects unwanted food or used clothes and sends them out to organisations to distribute to those in need. The charity always described its performance by way of “the number of banana boxes” of food distributed. Another way to evaluate its performance would be to describe the number of meals that have been distributed. The “method/basis of preparation/reporting policy” that may be more relevant and understandable to users of the report may be to evaluate performance with reference to the “number of meals provided” rather than with reference

¹ ISAE (NZ) 3000 (Revised). paragraph A10.

² EG Au1A *Framework for Assurance Engagements*, paragraph 42

to banana boxes. This is the type of example that we could use in explanatory material. The criteria in this instance is the “number of meals provided”.

23. A possible way to define “service performance criteria” and link it back to make it clear that this is about how the entity has applied the qualitative characteristics would be as follows:
- “Service performance criteria - The entity’s service performance criteria include the selection of goods and/or services reported, and the performance measures and/or descriptions used to evaluate the entity’s service performance for a particular engagement. The entity’s service performance criteria is how the entity applies the qualitative characteristics and pervasive constraints of information as required by the applicable financial reporting framework, applicable to its circumstances, with logical links to the entity’s overall purpose and strategies. Suitable criteria include criteria for presentation and disclosure.”
24. Any change will result in pervasive changes to the draft standard.
25. **The Board is asked to provide feedback in response to the concerns raised with respect to how “criteria” have been described.**

Support for the amended draft

26. The AUASB technical group is satisfied that the NZAuASB has dealt with the key areas raised by respondents on exposure and that these have been appropriately reflected in the draft NZ AS 1.
27. Prof. Karen Van Peursem expressed support for “an appropriate allocation of responsibility (to the governing board) – albeit with support from the auditor as left to their discretion”. The feedback was also supportive of the focus on the ‘user needs’.
28. Van Peursem did suggest a focus on ‘accountability’ as well in a public sector entity in terms of what may or may not be ‘material’. “This focus is important as, for example, one serious mis-performance in the health sector may be ‘material’ and cannot necessarily be adjudged on financial terms.”
29. Accountability is referred to in paragraph 44 and A28 of the draft standard. **Does the Board consider that further emphasis on accountability is needed?**

Specific amendments to consider

30. KPMG raised three matters where they believe the draft standard to be unworkable, but provided suggestions for consideration in order to address these concerns. The following matters were raised:
- a. Para 16(a) requires the auditor to communicate any deficiencies or areas of improvement relating to the judgements made in reporting the entity’s service performance information. Concern was raised with respect to the term “any” as it may not be practicable to communicate all deficiencies or improvement areas. KPMG suggest adding “significant” deficiencies or areas of improvement.
 - b. Para 26 requires the auditor to discuss those matters identified in para 26a” as soon as possible”. KPMG considers the words” as soon as possible” to be unworkable as it may not always be appropriate to communicate those matters ‘as soon as possible’. KPMG suggested removing those words, which aligns with the wording used in ISA (NZ) 705, paragraph 30.
 - c. KPMG interpret paragraph 30 to require the auditor to evaluate the design and implementation of all controls relating to the preparation of the service performance information and consider that this is impractical as not all controls will be relevant to the audit. KPMG suggest changing the words to “obtain an understanding of internal controls relevant to the audit ...” consistent with the wording in ISA (NZ) 315, paragraph 13.
31. We consider the amendments in (a) and (c) suggested by KPMG will clarify the intent of the Board in developing the standard and therefore recommend that these suggestions are adopted.
32. The suggestion to remove the reference to “as soon as possible” in paragraph 26 may result in any of the concerns of the auditor being deferred, resulting in insufficient time for the entity to make any adjustments. The words were added to encourage the auditor to raise concerns as early as possible so as to enable any adjustments to be made.
33. **The Board is asked for views on deleting the words, “as soon as possible”.**

34. Chartered Accountants Australia New Zealand (CAANZ) was largely supportive of the amended draft. “We consider that, on the whole, the changes made reflect the views expressed in our submission on the ED as well as those conveyed by other parties”. CAANZ also provided a number of editorial comments. These are not repeated in this analysis but are considered in the mark up at agenda item 6.3.
35. CAANZ also encouraged the “differentiation of the terms “service ‘performance” and “service performance information” in the definition section.
36. The Board has previously discussed whether to define service performance or service performance information, however have not done so given that the accounting standard does not define these terms.
- 37. Does the Board consider that these terms should be defined in the auditing standard?**
- OAG feedback*
38. The OAG’s feedback is not supportive of the amended draft standard and it is their view “that the proposed standard, in its current form, is unworkable and may result in unintended consequences”. The OAG suggests that the NZAuASB endeavour to quantify the compliance and audit cost implications of the proposed standard together with the accompanying benefits.
39. We consider that the OAG may be better positioned to be able to quantify the costs of the proposed standard. It is not clear how such costs will differ from complying with AG 4. There will be a cost to auditing the information however the requirement for an audit has not been imposed by the NZAuASB.
40. The OAG remains of the view that the draft standard is overly complex and does not communicate its requirements in plain English.
41. Four key areas were identified, most of which have been debated on many occasions by the NZAuASB. Each of these is briefly considered below. Without reopening all of the debate to reach the position in the amended draft standard, we have not identified any amendments based on this feedback.
- 1. Use of terminology:*
42. The OAG remains concerned that the proposed standard contains terms that are different to the accounting standards. The OAG is concerned that “auditors must use the same language as preparers. This is specifically with reference to the “qualitative characteristics” and “pervasive constraints” that form the framework for service performance reporting”. The concern is that there will be “confusion and the real possibility that auditors will apply different standards to preparers. This situation is concerning, particularly when the accounting standards have been set within a permissive framework to allow innovative means of reporting service performance”.
43. The NZAuASB outlined the rationale for aligning with the assurance framework when describing suitable criteria in the [draft explanations for decisions made](#). We do not consider that any new information has been provided in the OAG’s feedback which will result in a change to this rationale.
- 2. Methods used*
44. The OAG is not supportive of the concept of the entity’s “selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity’s service performance.” This matter is considered above.
45. The OAG is also concerned that the proposed standard imposes a disclosure requirement on the auditor that is the preparer’s responsibility. “The proposed standard should not place a disclosure requirement on the auditor, particularly when the proposed standard requires significantly more disclosure than is required under the accounting standard. Specifically, the proposed standard includes a requirement for the auditor to evaluate whether the entity’s methods used to measure, describe, aggregate, present and disclose the entity’s service performance are available to the users. Whilst we disagree that the concept of methods should be included in the proposed standard, we are concerned that the proposed standard places a disclosure obligation on the auditor ...There is no indication that users want this information. For a department or council with many measures, this would be a lot of information and an onerous requirement for preparers and auditors with no clear benefits. We consider it both unworkable and having an unintended consequence of significant extra effort for preparers to document and make this information available for users.”

46. The requirement for the “criteria” to be available to the user is a precondition for any assurance engagement. There are various ways in which these criteria can be made available – as articulated in paragraph A36 of the draft standard. The rationale for the inclusion of this requirement was also articulated in the [draft explanations for decisions made](#). We do not consider that any new information has been provided in the OAG’s feedback which will result in a change to this rationale.
47. The OAG consider that the bold text (below) in the proposed opinion is “unnecessary and confusing. We note that the standard should be seeking compliance with generally accepted accounting practice, rather than compliance with the entity’s own methods. The methods are the means by which the entity achieves compliance with generally accepted accounting practice.” The proposed opinion was as follows:
- “In our opinion the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects:
- the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance, and its cash flows for the year then ended; and
 - the service performance for the year ended December 31, 20X1 **in accordance with [the entity’s] methods to measure, describe, aggregate, present and disclose its service performance”**.
48. The NZAuASB clarified the reason for the inclusion of this requirement in paragraph 51 of the [draft explanations for decisions made](#), since it is a requirement of an assurance engagement for the opinion to identify the “criteria” used.
49. We do not consider that any new information has been provided in the OAG’s feedback which will result in a change to the rationale described.
50. We note that in examples of public sector audit reports the opinion refers “to the statement of service performance of the [entity] presents fairly, in all material respects, the performance achievements measured against the performance targets adopted for the year ended 30 June 2017.”
51. We consider that the underlined text identifies the “applicable criteria” for the engagement and that the requirement in the draft standard is consistent with current practice in the public sector.
- 3. Difficult to understand*
52. The OAG acknowledged that improvements have been made since the first exposure draft but consider “it is still difficult to read and understand”. As previously raised by the OAG, they recommend that “the main body of the proposed standard should include only a small number of essential requirements. Application and Explanatory Information should provide helpful guidance to auditors on the practical application of the requirements. This recognises that auditors are busy people. Unless the proposed standard is clear and readable there is a good change that it will not be properly understood, which could lead to it being misapplied.”
53. We have not identified requirements that are not included in order to promote a high quality audit in line with international assurance requirements. It is unclear from the submission which requirements are unclear or unreadable and no further amendments are recommended.
- 4. Scope of the standard*
54. The OAG is concerned that the “proposed standard may lead auditors to limit their audit to “service performance information” and, in doing so, cause preparers to also limit their reporting to service performance information. Unfortunately, this deficiency is also present in the accounting standard PBE FRS 48.”
55. We understand that the OAG is concerned that the scope of the standard is limited from or excludes any supporting contextual information. “Reporting performance information is a developing area. There are different, and sometimes better, ways of reporting beyond a service performance dimension. Both PBE FRS 48 and the proposed standard allow for broader information to be reported, as service performance information is explained as follows:

“Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, **together with supporting contextual information.**”

The proposed standard now explains service performance information in paragraph A1 under the “Application and Other Explanatory Guidance” heading. We consider that the proposed standard should specifically state that, under the “scope of this NZ AS” section.”

- 56. We understand that the OAG is asking that the standard clarify that service performance information includes contextual information in the scope of the auditing standard.
- 57. The Board has previously debated whether to define service performance information but decided against doing so as it is not defined by the accounting standard, and there has already been criticism that the auditing standard should align with PBE FRS 48 *Service Performance Reporting*.
- 58. We do not consider that making this statement in the scope of this NZ AS section will make any difference, as we understand that the contextual information is a part of the service performance information under PBE FRS 48.
- 59. **Does the Board consider that any further changes should be made to the draft standard based on the matters raised by the OAG submission?**



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

NEW ZEALAND AUDITING STANDARD 1

The Audit of Service Performance Information

Issued [date]

This Standard was issued on [date] by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [date].

An auditor that is required to apply this Standard is required to apply it for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021. However, early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of the issue of financial reporting requirements in New Zealand that require the inclusion of service performance information within general purpose financial reports that are subject to audit.

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ISBN xxx

NEW ZEALAND AUDITING STANDARD 1
THE AUDIT OF SERVICE PERFORMANCE INFORMATION
Issued by the New Zealand Auditing and Assurance Standards Board

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New Zealand Auditing Standard (NZ AS) 1, *The Audit of Service Performance Information*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

History of Amendments

Table of pronouncements – NZ AS 1 *The Audit of Service Performance Information*

This table lists the pronouncements establishing and amending NZ AS 1.

Pronouncements	Date approved	Effective date
New Zealand Auditing Standard 1		This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021.

Introduction

Scope of this NZ AS

1. This New Zealand Auditing Standard (NZ AS) deals with the auditor's responsibilities with respect to service performance information when an auditor is engaged to audit the general purpose financial report. The auditor performs the audit of the service performance information concurrently with the audit of the financial statements. (Ref: Para. A1)
2. This NZ AS establishes requirements and provides guidance not addressed by other International Standards on Auditing (New Zealand) (ISAs (NZ)) with respect to service performance information. (Ref: Para. A2)
3. This NZ AS applies when the auditor is required by law or regulation or is otherwise engaged to audit the general purpose financial report, that is, engaged to audit both the financial statements and the service performance information. For purposes of this NZ AS, the financial statements and the service performance information are collectively referred to as the general purpose financial report. (Ref: Para. A3-A5, Appendix 1)
4. This NZ AS is not applicable when a review engagement is to be performed on the general purpose financial report.

Effective Date

5. This NZ AS is effective for audits of service performance information included in the general purpose financial report for periods beginning on or after 1 January 2021. Early adoption is permitted.

Objectives

6. The objectives of the auditor are:
 - (a) To understand the process applied by the entity to select what and how to report its service performance;
 - (b) To evaluate whether the selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity's service performance are suitable so as to result in service performance information in accordance with the applicable financial reporting framework;
 - (c) To obtain reasonable assurance about whether the service performance information included in the general purpose financial report is free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on the service performance information;
 - (d) To report, in accordance with the auditor's findings, about whether the service performance information included in the general purpose financial report is prepared, in all material respects in accordance with the applicable financial reporting framework; and
 - (e) To communicate further as required by the ISAs (NZ) and this NZ AS, in accordance with the auditor's findings.

Definitions

7. For the purposes of this NZ AS, the following terms have the meanings attributed below:

Commented [MP1]: CAANZ suggestion

- (a) General purpose financial report – Comprise the financial statements and service performance information and, where applicable, entity information, prepared in accordance with the applicable financial reporting framework. The general purpose financial report may be referred to as a Performance Report. (Ref: Appendix 1)
- (b) Long-form report – Auditor's report including information and explanations that are intended to meet the information needs of intended users but not to affect the auditor's opinion. (Ref: Para. A69–A71)
- (c) Misstatement – A difference between the selection, measurement, description, aggregation, presentation, or disclosure of service performance information and the selection, measurement, description, aggregation, presentation or disclosure that is required for the information to be in accordance with the applicable financial reporting framework. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions. Misstatements can arise from error or fraud.
- (d) Other information – Financial or non-financial information (other than the financial statements, service performance information, entity information, if applicable and the auditor's report thereon) included in an entity's annual report. (Ref: Para. A5, Appendix 1)
- (e) Risk of material misstatement – The risk that the service performance information is materially misstated.
- (f) ~~Methods to measure, describe~~ Performance measures and/or descriptions and the aggregation, presentation and disclosure of the entity's service performance information – the applicable criteria¹ used to measure or evaluate the entity's service performance. The ~~methods-applicable criteria~~ are entity specific, developed to tell the entity's own performance story. The ~~methods-applicable criteria~~ are required to be in accordance with the ~~principles-qualitative characteristics and pervasive constraints~~ of the applicable financial reporting framework. (Ref: Para. A6–A8)

Commented [MP2]: Key outstanding matter – how to describe the criteria.

Requirements

Conduct of the Engagement in Accordance with ISAs (NZ)

- 8. The auditor shall apply the ISAs (NZ) and this NZ AS when auditing service performance information, as appropriate. Where an entity is required to include entity information within the general purpose financial report, and the auditor is engaged to audit the general purpose financial report, the auditor shall also apply the ISAs (NZ) and this NZ AS to the entity information, as appropriate. (Ref: Para. A9–A12, Appendix 1)
- 9. The auditor shall not represent compliance with this NZ AS unless the auditor has complied with the requirements of both this NZ AS and the ISAs (NZ).

¹ EG Au1A Framework for Assurance Engagements, paragraph 42

General Principles of an Audit of the General Purpose Financial Report

10. The auditor shall plan and perform the audit by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the service performance information to require a material adjustment for it to be prepared in all material respects, in accordance with the applicable financial reporting framework.

Agreement on Audit Engagement Terms

11. The terms of the audit engagement shall include:² (Ref: Para. A13)
- (a) The responsibilities of the auditor with respect to the service performance information:
 - i. To obtain an understanding of the process applied by the entity to select what and how to report its service performance;
 - ii. To evaluate whether the selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information in accordance with the applicable financial reporting framework;
 - iii. To evaluate the overall presentation, structure and content of the general purpose financial report and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with the applicable financial reporting framework.
 - (b) The responsibilities of those charged with governance, including that they acknowledge and understand their responsibility on behalf of the entity for:
 - i. The preparation of service performance information in accordance with the applicable financial reporting framework;
 - ii. The selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity's service performance that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework;
 - iii. Such internal control as those charged with governance determine is necessary to enable the preparation of the service performance information that is free from material misstatement, whether due to fraud or error;
 - (c) Reference to the expected form and content of the auditor's report, including whether it will be a long-form report, including additional information about the selected service performance, or the methods used to measure, describe, aggregate, present and disclose the service performance, detailed findings or recommendations to meet the needs of the intended users.

Documentation

12. The auditor shall document the nature, timing and extent of the audit procedures performed

² ISA (NZ) 210, paragraph 9-10

to comply with this NZ AS.³ (Ref: Para. A14)

13. The audit documentation shall, as far as possible, provide evidence of the correlation between the audit evidence obtained related to the financial statements and the service performance information.

Laws and Regulations

14. The auditor shall obtain an understanding of:
 - (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates and, in particular, laws and regulations that specify the form, content, preparation and audit of service performance information; and
 - (b) How the entity is complying with that framework.
15. The auditor shall obtain sufficient appropriate audit evidence that the entity has complied with laws and regulations that have a direct effect on the reporting of service performance information.⁴

Communication with Those Charged with Governance

16. The auditor shall communicate the following matters with those charged with governance:⁵
 - (a) The auditor's views about judgements made in reporting the entity's service performance information, including any **significant** deficiencies or areas for improvement. For example, why the auditor considers the selected service performance or methods used to measure, describe, aggregate, present and disclose the service performance are not suitable to the circumstances; (Ref: Para. A15)
 - (b) Matters involving non-compliance with laws and regulations with respect to service performance reporting obligations; and
 - (c) Deficiencies in internal control with respect to the service performance information that, in the auditor's professional judgement, are of sufficient importance to merit attention.

Commented [MP3]: KPMG suggestion

Planning

17. The auditor shall develop the audit plan to concurrently cover the financial statements **information** and the service performance information so that the audit is performed in the most effective manner and reflects the correlation between the service performance information and the financial statements **information**.⁶
18. In establishing the overall audit strategy, the auditor shall:
 - (a) Obtain an understanding of the applicable financial reporting framework relevant to service performance information;

Commented [MP4]: CAANZ suggestion – financial statement information is considered a new term. Financial statements is used throughout.

³ ISA (NZ) 230, *Audit Documentation*, paragraphs 7-16

⁴ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁵ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 14-17

⁶ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 7

- (b) Obtain an understanding of the entity's process for understanding who the intended users are and the decisions that may be influenced by the service performance information;
 - (c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts in respect of the audit of service performance information.
19. The auditor shall discuss with those charged with governance where and how the entity intends to report its service performance information. (Ref: Para. A16)
20. If the entity intends to report service performance information about service performance provided by other entities, the auditor shall, where applicable:
- (a) Obtain an understanding of the nature and significance of the services provided by a service organisation and their effect on the user entity's internal control relevant to the audit of the service performance information, sufficient to identify and assess the risks of material misstatement and design and perform audit procedures responsive to those risks in accordance with ISA (NZ) 402.⁷ (Ref: Para. A17)
 - (b) Obtain sufficient appropriate audit evidence regarding the service performance information of the components and the consolidation process to express an opinion on whether the group's service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.⁸ (Ref: Para. A17)
 - (c) Communicate clearly with the other practitioner, when the auditor intends to use the work of another practitioner, about the scope and timing of the work and findings of the other practitioner and evaluate the sufficiency and appropriateness of evidence obtained and the process for including related information in the service performance information ~~when the auditor intends to use the work of another practitioner.~~ (Ref: Para. A18)
- when planning the audit of the service performance information.

Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement

Obtaining an Understanding of the Entity and Its Environment

21. The auditor shall obtain an understanding of: (Ref: Para. A19–A24)
- (a) The service performance of the entity and the context in which the entity operates;
 - (b) The entity's process for identifying what service performance to report on and the methods used to measure, describe, aggregate, disclose and present its service performance, as well as what other options were considered;
 - (c) Whether the selected service performance and the methods used to measure, describe,

⁷ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

⁸ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Commented [MP5]: CAANZ suggestion was to reverse to focus on the relevant situation, by starting the sentence with when the auditor intends to use the work of another practitioner – however this may require the introductory sentence to be revised. Does the board consider that the proposed change enhances readability?

CAANZ queried why the term "another practitioner" is used and not auditor – Board has previously discussed that this may be done by an assurance practitioner more broadly given the different skill sets that may be required. Does the board wish to change to auditor?

aggregate, disclose and present its service performance will generate service performance information that is consistent with and clearly linked to the entity's overall purpose and strategies;

- (d) How much discretion the entity has in selecting what service performance to report on and the methods used to measure, describe, aggregate, present and disclose the service performance in accordance with the applicable financial reporting framework;
- (e) The extent to which consultation with intended users influenced the selection of service performance and the methods used to measure, describe, aggregate, present and disclose the service performance; and (Ref: Para. A22–A24)
- (f) The judgements made in deciding when to provide comparative narrative and descriptive information.

Suitability

22. The auditor shall evaluate whether the selected service performance and methods used to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information in accordance with the applicable financial reporting framework, in that they exhibit the following characteristics: (Ref: Para. A25–A30)⁹

- (a) Relevance (Ref: Para. A31)
- (b) Completeness (Ref: Para. A32)
- (c) Reliability (Ref: Para. A33)
- (d) Neutrality (Ref: Para. A34)
- (e) Understandability (Ref: Para. A35).

23. The auditor shall evaluate:

- (a) Whether, if in the auditor's judgement, significant aspects of service performance have been excluded, that have been, or could readily be, measured and/or described, whether such exclusions are reasonable in the circumstances; or (Ref: Para A39–A41)
- (b) Whether the service performance information inappropriately attributes service performance to the entity.

Commented [MP6]: CAANZ noted that this para which was under the sub-heading of communication does not relate to communication. They suggested moving to under the "Materiality in Planning and Performing the Engagement Section". However this does flow into the requirement in para 26.

We suggest re-ordering and moving this paragraph up as indicated rather than to the materiality section. Does the Board agree?

Commented [MP7]: CAANZ suggest that significance would be based on the auditor's judgement – consider adding highlighted words

Availability

- 23-24. The auditor shall evaluate whether the entity's methods used to measure, describe, aggregate, present and disclose the service performance are available to intended users so as to enable intended users to understand the methods and assumptions underlying the information, for example, disclosed in the judgements reported as part of the service

⁹ The applicable financial reporting framework may describe different qualitative characteristics to these characteristics which align with the characteristics referred to in Appendix 2 of ISA (NZ) 210. The application material in paragraphs A39–A43 may need to be tailored to the applicable financial reporting framework. This is illustrated in Appendix 2.

performance information or by cross reference. (Ref: Para. A36–A38)

~~24-25.~~ If the entity has changed what service performance it reports on or the methods used to measure, describe, aggregate, present and disclose its service performance from the prior period, the auditor shall evaluate whether the changes are suitable in the circumstances, have been approved appropriately, and are explained within the service performance information.

Communication

~~25. The auditor shall evaluate:~~

- ~~(a) If significant aspects of service performance have been excluded, that have been, or could readily be, measured and/or described, whether such exclusions are reasonable in the circumstances; or (Ref: Para A39–A41)~~
- ~~(b) Whether the service performance information inappropriately attributes service performance to the entity.~~

26. If the auditor considers that all or some of the entity's service performance information:

- (a) Fails to comply with the applicable financial reporting framework;
- (b) Is prepared using methods to measure, describe, aggregate, present and disclose the service performance that are not suitable; or
- (c) Otherwise fails to provide a reasonable basis for fairly reporting the service performance of the entity;

the auditor shall discuss the matter with those charged with governance as soon as possible. (Ref: Para. A42)

Commented [MP8]: KPMG suggest removing these words. We seek views of the Board.

27. The auditor shall determine:

- (a) Whether the matter can be resolved to the auditor's satisfaction;
- (b) Whether further audit procedures can be performed with respect to the service performance information; or (Ref: Para. A43)
- (c) Whether, and if so, how to communicate the matter in the auditor's report where the matter is not resolved to the auditor's satisfaction.

28. In the circumstances described in paragraph 26, the auditor shall consider the implications for the audit, the auditor's report and the opinion and shall express a qualified, adverse, or a disclaimer of opinion, as appropriate in the circumstances, with respect to the service performance information. (Ref: Para. A73–A79)

29. In the circumstances described in paragraph 28, the auditor is not required to withdraw from the audit of the general purpose financial report but shall consider the impact of the modified opinion with respect to the service performance information on the opinion on the financial statements.

Commented [MP9]: Suggestion by CAANZ.

Obtaining an Understanding of the Entity's Internal Control

30. The auditor shall:¹⁰

- (a) Obtain an understanding of internal control **relevant to the audit** over the preparation of the service performance information; and
- (b) Evaluate the design of those controls and determine whether they have been implemented as designed. (Ref: Para. A44)

Commented [MP10]: CAANZ suggestion was to re-order and position this paragraph after para 21. We seek views from the board as to whether to re-order as suggested?

Commented [MP11]: Suggested by KPMG.

Materiality in Planning and Performing the Engagement

31. The auditor's consideration of materiality shall include both an evaluation of:

- (a) Whether the judgements made by the entity in selecting what service performance to report on and the methods used to measure, describe, aggregate, present and disclose the service performance are suitable as required by paragraph 22; and (Ref: Para. A45–A48, A31–A35)
- (b) Individual and collective misstatements in the reported service performance information, that based on the auditor's judgement, are likely to significantly influence the decisions of the intended users based on the information. (Ref: Para. A49–A53)

32. The auditor shall determine and document materiality levels and/or materiality factors to be applied to the service performance information for the purpose of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures.¹¹ (Ref: Para. A48–A53)

33. The auditor shall revise the judgements made in determining materiality for the service performance information if matters come to the auditor's attention during the audit that would have caused the auditor to have determined different materiality levels or materiality factors initially.

Identifying and Assessing Risks of Material Misstatement

34. The auditor shall identify and assess the risks of material misstatement, whether due to fraud or error:¹²

- (a) At the service performance information level; and
- (b) At the assertion level for performance measures, descriptions or disclosures where there is a reasonable possibility of material misstatement

through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement in accordance with ISA (NZ) 315 (Revised).¹³ (Ref: Para. A51, A54–A56)

Commented [MP12]: CAANZ suggestion was that this should be under the understanding the entity and its environment section (para 21-30).

The Board has previously discussed the positioning of the materiality section and we seek feedback as to whether to re-order as suggested?

¹⁰ ISA (NZ) 315 (Revised), paragraph 12

¹¹ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 10 and 14

¹² ISA (NZ) 315 (Revised), paragraph 25

¹³ ISA (NZ) 315 (Revised), paragraph 5

The Auditor's Responses to Assessed Risks

35. The auditor shall design and perform procedures whose nature, timing and extent¹⁴:
 - (a) Are responsive to assessed risks of material misstatement at the service performance information level and at the assertion level; and
 - (b) Allow the auditor to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of the relevant controls over the service performance information when:
 - (i) The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively, or
 - (ii) Where procedures other than tests of controls cannot provide sufficient appropriate audit evidence. (Ref: Para. A57–A59)
36. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material performance measure, description, and disclosure.¹⁵

Audit Evidence

37. The auditor shall obtain sufficient appropriate audit evidence to reduce the risk to an acceptably low level of expressing an inappropriate opinion when the service performance information is materially misstated, correlating, as far as possible, with the audit evidence obtained in the audit of the financial statements.¹⁶ (Ref: Para. A60–A62)
38. The auditor shall consider the relevance and reliability of the information to be used as audit evidence. If:
 - (a) Evidence obtained from one source is inconsistent with that obtained from another; or
 - (b) The auditor has doubts about the reliability of information to be used as evidence, the auditor shall determine whether additional procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit.
39. The auditor shall obtain sufficient appropriate audit evidence about whether any disclosures of judgements related to service performance information are reasonable in the context of the requirements of the applicable financial reporting framework.

Analytical Procedures

40. When designing analytical procedures, the auditor shall evaluate the service performance information through analysis of plausible relationships among both financial and non-

¹⁴ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

¹⁵ ISA (NZ) 330, paragraph 18

¹⁶ ISA (NZ) 500, *Audit Evidence*, paragraph 6

financial [data information](#).¹⁷

Commented [MP13]: Suggested by CAANZ.

Written Representations

41. The auditor shall request written representations from those charged with governance, with appropriate responsibilities for and knowledge of the service performance information, that they have fulfilled their responsibility:
 - (a) For the preparation of service performance information in accordance with the applicable financial reporting framework.
 - (b) To select service performance and use methods to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework.¹⁸ (Ref: Para. A63)

Commented [MP14]: CAANZ suggestion

Using the Work of an Auditor's Expert

42. The auditor shall determine whether specialised skills or knowledge are required regarding the service performance information and whether to use the work of an auditor's expert.¹⁹ (Ref: Para. A64)

Commented [MP15]: CAANZ suggestion – consider re-ordering and including in the planning section?

Forming an Opinion and Reporting

43. The auditor shall form an opinion on whether the service performance information is prepared, in all material respects, in accordance with the entity's methods to measure, describe, aggregate, present and disclose its service performance in accordance with the applicable financial reporting framework.²⁰ (Ref: Para. A65)
44. The auditor shall conclude whether, in view of the applicable financial reporting framework:
 - (a) The service performance information will assist users in forming assessments about an entity's accountability for service performance, and in influencing decisions based on the service performance information.
 - (b) The entity has selected service performance and used methods to measure, describe, aggregate, present and disclose the service performance that are suitable so as to result in service performance information in accordance with the applicable financial reporting framework.
 - (c) The assumptions underlying the [service performance](#) information are explicit, the methods used in preparing the [service performance](#) information and the factors and circumstances that support any opinions expressed or disclosures made are available to intended users. (Ref: Para. A66–A67)

Commented [MP16]: CAANZ suggestion

¹⁷ ISA (NZ) 520, *Analytical Procedures*, paragraph 6

¹⁸ ISA (NZ) 580, *Written Representations*, paragraph 9

¹⁹ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

²⁰ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 10

- (d) When the general purpose financial report is prepared in accordance with a fair presentation framework, the service performance information achieves fair presentation, including whether:
- (i) The overall presentation of the service performance information has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;
 - (ii) The overall presentation, structure and content of the service performance information represents the service performance of the entity in a manner that achieves fair presentation; and
 - (iii) The disclosure of the judgements made in reporting the service performance information, if applicable, is reasonable.
45. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance. That conclusion ~~and~~ shall take into account:
- (a) ~~The auditor's conclusion~~ whether sufficient, appropriate audit evidence has been obtained;
 - (b) ~~The auditor's conclusion~~ whether uncorrected misstatements are material, individually or collectively;
 - (c) The auditor's evaluation of whether the service performance information is prepared, in all material respects, in accordance with the applicable financial reporting framework.
46. The auditor shall consider:
- (a) Any matters arising during the course of the audit of the financial statements that may affect the auditor's evaluation of the service performance information.
 - (b) The impacts of any matters arising during the audit of the service performance information that may affect the auditor's evaluation of the financial statements.

Commented [MP17]: CAANZ comment - includes the term "the auditor" twice in the introductory sentence and in the sub-paragraphs. Consider simplifying

This construct follows the approach in ISA (NZ) 700 Para 11 but could be simplified as indicated. Does the Board have any further suggestions?

Commented [MP18]: CAANZ consider that "conclusion" is confusing (i.e. relates to limited assurance). This is the phrase used in ISA (NZ) 700 (Revised) but could be removed as indicated. We do however consider that the term conclusion as it relates to the requirement to conclude may break up the introductory para

Report Content

47. The auditor's report on the service performance information shall be included in a single report on the general purpose financial report and shall include the elements required by ISA (NZ) 700 (Revised) as applicable to the service performance information. (Ref: Para. A68–A69)
48. The opinion section of the auditor's report shall:
- (a) Identify the service performance information;
 - (b) State that the service performance information has been audited;
 - (c) Identify or refer to the methods used to measure, describe, aggregate, present and disclose the service performance information; and (Ref: Para. A70–A72)
 - (d) Include the auditor's opinion on the service performance information prepared in accordance with the applicable financial reporting framework.
49. When expressing an unmodified opinion on the service performance information prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless

otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

- (a) In our opinion the accompanying general purpose financial report presents fairly, in all material respects, the service performance for the year then ended in accordance with the entity's methods to measure, describe, aggregate, present and disclose its service performance in accordance with [*the applicable financial reporting framework*]; or
- (b) In our opinion the accompanying general purpose financial report gives a true and fair view of the service performance for the year then ended in accordance with the entity's methods to measure, describe, aggregate, present and disclose its service performance in accordance with [*the applicable financial reporting framework*].²¹

50. In addition to the requirements addressing financial statements in ISA (NZ) 700 (Revised), the auditor's report shall:

- (a) State, in the basis for opinion section, that the audit of the service performance information was conducted in accordance with International Standards on Auditing (New Zealand) and New Zealand Auditing Standard 1;
- (b) Describe, in the responsibilities for the general purpose financial report section, the responsibilities of those charged with governance:
 - For the preparation of service performance information in accordance with the applicable financial reporting framework;
 - To select service performance and use methods to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework;
 - For such internal control as those charged with governance determine is necessary to enable the preparation of service performance information that is free from material misstatement, whether due to fraud or error.

When the general purpose financial report is prepared in accordance with a fair presentation framework, the description of responsibilities for the general purpose financial report in the auditor's report shall refer to "the preparation and fair presentation of the service performance information" or the "preparation of service performance information that gives a true and fair view," as appropriate in the circumstances.

- (c) In the "Auditor's Responsibilities for the Audit of the General Purpose Financial Report" section:
 - Describe the audit of the service performance information by stating that, in accordance with the ISAs (NZ) and this New Zealand Auditing Standard, the auditor's responsibilities are to evaluate:

²¹ If the applicable financial reporting framework includes requirements for entity information, the opinion may be required by law, regulation or otherwise to cover the entity information.

- i. Whether the selected service performance and the methods to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information that is in accordance with the applicable financial reporting framework;
- ii. The overall presentation, structure and content of the general purpose financial report, and whether the general purpose financial report represents the underlying transactions, events and service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation; and

Key Audit Matters

51. The auditor may be required, or may voluntarily report key audit matters in the auditor's report.²² If reported, key audit matters shall include matters related to the audit of the service performance information where, in the auditor's judgement, such matters were of most significance to the audit of the general purpose financial report.

Modifications to the Opinion in the Independent Auditor's Report

52. The auditor shall modify the opinion, with respect to the service performance information, when:²³
- (a) The auditor concludes that the selected service performance and methods to measure, describe, aggregate, present and disclose its service performance are not suitable resulting in service performance information that is not in accordance with the applicable financial reporting framework; (Ref: Para A31–A35)
 - (b) The auditor concludes, based on the audit evidence obtained, that the service performance information is not individually or collectively free from material misstatement; or (Ref: Para. A73–A78)
 - (c) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the service performance information as a whole is free from material misstatement.
53. When the auditor modifies the opinion with respect to the service performance information, the auditor shall consider the effects of the modification on the opinion on the financial statements. (Ref: Para. A79)
54. When the auditor modifies the audit opinion with respect to the service performance information only, the audit opinion shall clearly indicate that the opinion on the financial statements is not modified. The auditor shall use the headings "Qualified Opinion on the Service Performance Information", "Adverse Opinion on the Service Performance Information" or "Disclaimer of Opinion on the Service Performance Information" as appropriate. The opinion with respect to the financial statements shall use the heading "Opinion on the Financial Statements".²⁴

²² ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

²³ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditors Report*

²⁴ Where appropriate, the heading may refer to the entity information.

55. If the auditor modifies the opinion on the financial statements, the auditor shall consider the effect of the modification on the opinion on the service performance information.

Emphasis of Matter Paragraphs and Other Matter Paragraphs

56. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the service performance information, that in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the service performance information, the auditor shall include an Emphasis of Matter paragraph in the auditor's report.²⁵
57. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the service performance information, that in the auditor's judgement, is relevant to user's understanding of the audit of the service performance information, the auditor shall include an Other Matter paragraph in the auditor's report.²⁶

Commented [MP19]: CAANZ suggestion to amend as follows: "...presented in the service performance information or disclosed in the general purpose financial report"

Consider this may blur the two opinions not one opinion on the GPFR. We seek the views of the Board?

Commented [MP20]: CAANZ same suggestion as in para 56.

Comparative Information

58. Where the entity presents a comparison of published prospective service performance information with the service performance information, the auditor shall evaluate whether the prospective service performance information presented in the general purpose financial report agrees with the information presented in the published prospective service performance information.

Commented [MP21]: CAANZ comment – only refers to comparative information as being prospective. Does the responsibility under ISA 710 with respect to corresponding figures (prior period amounts) also need to be referenced?

We consider that this would fall under the general requirement to follow the ISAs. Reference to published prospective SPI was highlighted as it is different from the usual? Does the Board consider that an additional requirement related to prior period amounts is needed. WE do not consider a specific reference to ISA (NZ) 710 should be included as the Board previously discussed limiting the amount of repetition of the ISAs to make the standard shorter.

Other Information

59. The auditor shall read the other information and consider whether there is a material inconsistency between:²⁷
- The other information and the service performance information; and
 - The other information and the auditor's knowledge obtained in the audit of the general purpose financial report. (Ref: Para. A80–A81)

Application and Other Explanatory Material

Scope of this NZ AS (Ref: Para. 1–3, 7(d))

- A1. Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information.
- A2. Work performed in the audit of the financial statements can often be used for the purpose of the audit of the service performance information. By highlighting matters that are common to both the financial statements and the service performance information, this

Commented [MP22]: CAANZ suggested information – however consistent with feedback to para 17 suggest we refer to financial statements

²⁵ ISA (NZ) 706 (Revised)

²⁶ ISA (NZ) 706 (Revised)

²⁷ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

NZ AS assists the auditor to accept, plan, perform and report in an effective manner, as well as highlighting areas where there are differences. This is to enable the auditor to perform the audit concurrently, effectively and in an all-encompassing manner.

- A3. Some public benefit entities are required by the applicable financial reporting framework to prepare service performance information as part of the general purpose financial report. Appendix 1 illustrates what constitutes the general purpose financial report.
- A4. Principles and requirements for the reporting of service performance information are specified within the applicable financial reporting framework as follows:
- (a) For Tier 1 and Tier 2 public benefit entities, *PBE FRS 48 Service Performance Reporting*.
 - (b) For Tier 3 public benefit entities, PBE Simple Format Reporting – Accrual.
 - (c) For Tier 4 public benefit entities, PBE Simple Format Reporting – Cash.

The Tier 3 and Tier 4 requirements also require entity information to be reported as part of the general purpose financial report. These requirements refer to the general purpose financial report as a performance report. For the purposes of this NZ AS, references to service performance information shall be taken to include service performance information and entity information, for Tier 3 or Tier 4 entities.

- A5. Some entities that are required by the applicable financial reporting framework to include service performance information in the general purpose financial report, may not be required by law or regulation to have the general purpose financial report audited or reviewed. For example, non-large and non-medium Tier 3 registered charities ~~with operating expenditure under \$500,000~~, and all Tier 4 registered charities may have no statutory assurance requirements. Where the service performance information is not within the scope of the audit engagement, the auditor's responsibility for the service performance information is limited to following the requirements in ISA (NZ) 720 (Revised).

Definitions (Ref: Para. 7(f))

- A6. The applicable financial reporting framework includes principles to guide an entity through a process to select what service performance to report on and what methods to use to measure, describe, aggregate, present and disclose its service performance to implement the applicable financial reporting framework. The entity will apply the process, as appropriate to the entity's circumstances, to select what service performance to report on, what methods to use to measure and/or describe that service performance, how to structure the information and how the information is related to each other and the entity's overall purpose and strategies.
- A7. Even for the same underlying service performance there can be different methods used to measure, describe, aggregate, present and disclose the service performance, which will yield a different measurement or description. For example, an entity might select, as one of its performance measures, the levels of satisfaction using a rating scale on a survey; another entity might select to report the number of complaints received. These are both examples of how the entity evaluates its service performance.

Commented [MP23]: CAANZ suggestion – the size threshold is based on two preceding accounting periods. We recommend referencing non-large and non-medium charities as defined in section 42D of the Charities Act 2005.

The Board has previously avoided direct references to legislation to avoid the need to continuously update the auditing standards if the legislation changes. Reference to non-large and non-medium may be useful to avoid needing to update the standard if the \$ value changes. Does the Board consider that these terms will be understood without direct reference to the Charities Act section?

- A8. Disclosures comprise explanatory notes or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework. Presentation refers to whether the service performance is appropriately aggregated or disaggregated and clearly described.

Conduct of the Engagement in Accordance with ISAs (NZ) (Ref: Para. 8)

- A9. The ISAs (NZ), which are based on the International Standards on Auditing (ISAs), are written in the context of an audit of financial statements by an auditor. Although service performance information is considered to be an integral part of an entity's general purpose financial report, the nature of the underlying subject matter included in the service performance information includes non-financial information which is not part of the financial statements as defined in the ISAs (NZ). However, the requirements of the ISAs (NZ) apply equally to an audit of the entire general purpose financial report, prepared in accordance with the applicable financial reporting framework, where that financial reporting framework also incorporates requirements to prepare service performance information.
- A10. The ISAs (NZ), together with this NZ AS, covers all aspects of the audit of the general purpose financial report and therefore there is no requirement for the auditor to apply ISAE (NZ) 3000 (Revised)²⁸ to the service performance information.
- A11. This NZ AS supplements the ISAs (NZ). It expands on how the ISAs (NZ) are to be applied to the service performance information. This NZ AS includes specific requirements for the service performance information that are not dealt with by the ISAs (NZ) or where the application of the ISAs (NZ) differs as a result of the nature of the service performance information.
- A12. The relevance of each of the ISAs (NZ) to the service performance information requires careful consideration. For example, ISA (NZ) 240,²⁹ ISA (NZ) 540,³⁰ ISA (NZ) 550³¹ and ISA (NZ) 570 (Revised)³² are, in principle, relevant. This is because the service performance information could be misstated as a result of fraud, misstated estimates as a result of measurement that is subject to estimation uncertainty, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

Agreement on Audit Engagement Terms (Ref: Para. 11)

- A13. The terms of the audit engagement for the audit of the general purpose financial report include references to the service performance information. An example of an audit engagement letter for an audit of the general purpose financial report including service

²⁸ ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

²⁹ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

³⁰ ISA (NZ) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

³¹ ISA (NZ) 550, *Related Parties*

³² ISA (NZ) 570 (Revised), *Going Concern*

performance information is set out in Appendix 4.

Documentation (Ref: Para. 12)

A14. The following are examples of matters that the auditor may consider to be appropriate to include in the audit documentation:

- Planning: The overall engagement strategy, the engagement plan, capturing the nature of the plan, reflecting plans to make connections between the financial statements and service performance information, and any significant changes made during the engagement, and the reasons for such changes;
- Materiality: The materiality levels or materiality factors for the service performance information and matters considered in their determination;
- Risks of material misstatement: Key elements of the understanding obtained regarding the entity and its environment specified in paragraph 21, and the risks of material misstatement for which, in the auditor's professional judgement, further procedures were required;
- Procedures: The nature, timing and extent of the further audit procedures performed, the linkage of those further audit procedures with the risks of material misstatement, and the results of audit procedures;
- Evaluation of misstatements: Misstatements identified during the engagement and whether they have been corrected, the auditor's conclusion as to whether uncorrected misstatements are material, individually or collectively, and the basis for that conclusion.

Commented [MP24]: CAANZ comment should this be opinion – "conclusion" may be confusing as it relates to limited assurance.

This term is used in the ISAs and does not refer to the overall opinion. Does the Board consider that opinion should be used instead of conclusion?

Communication with Those Charged with Governance (Ref: Para. 16)

A15. The preparation of service performance information is highly judgemental. As a result, the auditor's views on the judgemental areas of reporting the entity's service performance may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. Open and constructive communication including feedback on the maturity of the entity's process to select what service performance to report on, the suitability of its methods used to measure, describe, aggregate, present and disclose its service performance or how the information compares to other entities may drive improvements in reporting over time. This may include comments about, for example, judgemental aspects of what service performance to report on, concerns regarding management bias or the quality of the presentation of the information.

Planning (Ref: Para. 19–20)

A16. Information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference.³³ Such information is part of the financial statements. Service performance information that is incorporated into

³³ 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 A2

the general purpose financial report by cross-reference is part of the general purpose financial report and is subject to the audit in accordance with this NZ AS.

- A17. The applicable financial reporting framework may allow flexibility in where and how an entity reports its service performance information. It may be appropriate for an entity to report service performance information about service performance provided by other entities. ISA (NZ) 402³⁴ may be relevant to the audit of the service performance information, if the user entity makes use of a service organisation for the preparation of service performance reporting with another entity or where the entity outsources aspects of their business to organisations that provide services ranging from performing a specific task under the direction of the entity to replacing an entity's entire business units or functions that are significant to the service performance information. Alternatively, ISA (NZ) 600³⁵ may be relevant, adapted as necessary to the circumstances, when the auditor involves other auditors in the audit of the service performance information where the service performance information includes information about goods and services provided by other entities.
- A18. The service performance information may include information upon which another practitioner may have expressed an opinion. The auditor may decide to use the evidence on which that other practitioner's opinion is based to provide evidence regarding the service performance information included in the general purpose financial report. The work of another practitioner may be used in relation to service performance information that falls outside the boundary of the reporting entity. Such practitioners are not part of the engagement team. Relevant considerations when the engagement team plans to use the work of another auditor may include:
- Whether the auditor understands and complies with the requirements of Professional and Ethical Standard 1 (Revised).
 - The other practitioner's professional competence.
 - The extent of the engagement teams' involvement in the work of the other practitioner.

Understanding the Entity and Its Environment, Including the Entity's Internal Control, and Identifying and Assessing Risks of Material Misstatement (Ref: Para. 21–29)

Obtaining an Understanding of the Entity and its Environment

- A19. The entity may follow its own process to identify what and how to report its service performance to implement the applicable financial reporting framework applicable to its circumstances. Without suitable methods to measure, describe, aggregate, present and disclose its service performance, the entity does not have an appropriate basis on which to prepare the service performance information and the auditor is unable to meet the objectives of the audit. Without the frame of reference provided by transparent assumptions and preparation methods, any conclusion is open to individual interpretation and

³⁴ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

³⁵ ISA (NZ) 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

Commented [MP25]: CAANZ comment should this be opinion – "conclusion" may be confusing as it relates to limited assurance.

Does the Board consider that opinion should be used instead of conclusion?

misunderstanding. The suitability of what and how to report service performance is context-sensitive, that is, it is determined in the context of the entity's circumstances.

- A20. The selection of what service performance to report on and how to measure or describe that service performance, and then aggregate, disclose and present the information is more judgemental than reporting on financial information. An entity may have a wide variety of performance frameworks, guidance, or codes (or a combination thereof) to choose from in the preparation of this information. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external reporting methods, including pre-established performance measures and/or descriptions from guidance, standards, or laws or regulation, or it may need to apply judgement to develop its own internally developed methods for measuring or describing its service performance. The need for such judgement makes the preparation of the service performance information inherently more susceptible to the risk of management bias.
- A21. In the example in paragraph A7 where an entity identifies stakeholder satisfaction as the underlying service performance to report on, the entity identifies the most suitable method to measure or describe this performance in the context of the entity.
- A22. The application of professional scepticism by the auditor is particularly important when assessing the neutrality and completeness of the service performance selected and the methods used to measure, describe, aggregate, present and disclose the entity's service performance due to the level of judgement to be exercised by the entity. This is particularly important if the entity's methods are not substantially based on established methods generally used in the entity's sector, or are inconsistent with such methods and assumptions. The auditor may need to apply significant professional judgement in the assessment of the suitability of the selected information and the entity's methods to measure, describe, aggregate, present and disclose its service performance in situations where a well-designed due process is not followed or where the intended users were not involved in the selection of what service performance to report on and/or the development of the methods to be used.
- A23. The process applied by the entity to determine what to report on and how to report its service performance may affect the work that the auditor carries out. The level of potential management bias in selecting what and how to report its service performance directly correlates with the amount of work that the auditor may need to perform when considering the design of the entity's methods to measure, describe, aggregate, present and disclose its service performance. For example, use of performance measures specified by external benchmarks, industry guidance, or developed in consultation with intended users may require less work than internally generated performance measures as external guidance reduces the risk of management bias. Transparency about the entity's process to select what and how to report its service performance and the entity's consideration of materiality may also affect the work that the auditor carries out.
- A24. Factors that the auditor may consider in obtaining an understanding of the entity's process for identifying what and how to report its service performance include:
- Whether there are factors that are outside the control of the entity or there are long time frames that are required to make assessments of the entity's service performance.
 - Examples of the impact of the source of the methods used to measure, describe, aggregate, present and disclose its service performance:

- The scope of what service performance to report on or the methods used to measure, describe, aggregate, present and disclose its service performance may be embodied in law or regulation specific to the entity, industry or sector in which the entity operates and, in particular, with laws and regulations that specify the form and content of service performance information or which describe the entity's accountability. In the absence of indications to the contrary, such methods are presumed to be suitable and are publicly available.
- The entity may use a well-established performance framework, theory of change or intervention logic model to explain how its service performance during the reporting period relates to its broader aims and objectives or may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders, for example, a local authority's Long-Term Plan, statement of intent, charter, recent plans and strategies or in funding contracts or agreements with key funders. Methods to measure, describe, aggregate, present or disclose service performance that have been pre-agreed with key stakeholders may have a lower risk of management bias.
- The entity may have described predetermined objectives or specific performance goals or targets in agreements with key stakeholders (e.g., in an entity's Long-Term Plan or in funding contracts or agreements with key funders) or in the entity's statement of intent or charter and recent plans and strategies. Methods to measure, describe, aggregate, present or disclose service performance that have been pre-agreed with key stakeholders may have a lower risk of management bias.
- Guidelines developed and issued collectively by a group or published in journals or results of benchmarking studies, for example, central agencies may provide guidance or establish requirements for the preparation of service performance information. The auditor may need to evaluate the suitability of these guidelines to the entity's circumstances and ~~to~~ how these align to intended users' needs. A more detailed set of methods to measure, describe, aggregate, present or disclose service performance may be more appropriate.
- Results of surveys, e.g., satisfaction surveys, or other evidence of stakeholder consultation, e.g., feedback, complaints, targeted interviews or stakeholder workshops, providing information about who the intended users are and what information they may find helpful to assess the performance of the entity. A well-designed process in developing what service performance to report on and the methods used to measure, describe, aggregate, present or disclose service performance with involvement of intended users lowers the risk of management bias.
- Other external requirements or agreements with external parties that influence the entity's service performance accountability.
- Other contextual information, including strategic and operational objectives. For example, an entity's constitution, trust deed, mission statement, recent plans and strategies.
- How the entity assesses its service performance for the purposes of internal decision making.

Commented [MP26]: CAANZ comment – largely similar consider combining.

Commented [MP27]: CAANZ suggestion

- Whether the entity's methods to measure, describe, aggregate, present or disclose service performance have been validated through research conducted to be well correlated with what they are intended to measure or describe.
- Changes from the prior period in the nature or extent of operations.
- Whether it is appropriate to report on information that falls outside of the boundary of the reporting entity.

Suitability

A25. When evaluating whether the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance are suitable, the auditor is evaluating the judgements made by the entity in applying the qualitative characteristics referred to in the applicable financial reporting framework. The qualitative characteristics described in the applicable financial reporting framework are similar to the characteristics of suitable criteria described in paragraph 22 but may differ in the words used. Appendix 2 illustrates the similarities. The characteristics in paragraph 22 are framework neutral.

A26. The characteristics are not mutually exclusive, and the relative importance of each characteristic varies according to the circumstances. The preparer entity may exercise significant judgement to select what and how to report its service performance to meet the qualitative characteristics. The auditor applies professional scepticism recognising that circumstances may exist that cause the selection and use of methods to be biased, incomplete or otherwise contrary to the qualitative characteristics required by the applicable financial reporting framework.

Commented [MP28]: CAANZ comment – should this be entity? Preparer has been used in three places so for consistency suggest refer to entity

A27. The auditor's role is to evaluate whether the entity has appropriately applied the qualitative characteristics and pervasive constraints as required by the applicable financial reporting framework in preparing the service performance information. In doing so, the auditor evaluates whether the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance are suitable. This evaluation is based on a consideration of the process adopted, and choices and trade-offs made by the entity in determining the most appropriate manner to tell its service performance story.

Commented [MP29]: CAANZ suggestion – would benefit from being defined. This is not defined in the accounting standard so if considered necessary we suggest cross referencing to the conceptual framework, however as the words are followed with reference to the applicable financial reporting framework we do not consider that this is really necessary

A28. The selected service performance and methods used to measure, describe, aggregate, present or disclose service performance are suitable when:

- The entity has appropriately applied the qualitative characteristics and pervasive constraints to enable users to make an informed assessment of the entity's service performance, and
- Include reasonable quantitative or qualitative measures or descriptions of service performance against which the entity's service performance may be assessed and are of particular value or importance for accountability and decision-making purposes.

Commented [MP30]: CAANZ comment

A29. When evaluating the suitability of the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance as required by paragraph 22, the auditor may consider:

- The intended users of general purpose financial reports and the types of decisions that may be influenced on the basis of the service performance information, whether users were involved in the selection of what to report on or development of the methods

used and if not, reasons why not;

- (b) How the qualitative characteristics applied by the entity have influenced the selection of what service performance to report on and how to measure or evaluate that performance (e.g., service performance information must be relevant, but the overall volume of information must also be accessible in order for it to be understandable);
- (c) The various components of the entity's service performance and check for credible links, internal logic and consistency with the financial information;
- (d) How the entity plans to present and disclose its financial statements and service performance information that is material;
- (e) The complexity of the underlying service performance;
- (f) Other potentially more suitable methods to measure, describe, aggregate, present or disclose the entity's service performance that could have been used and reasons why those were not considered;
- (g) Potential misunderstanding of the resultant service performance information generated after application of the selected service performance and methods to measure, describe, aggregate, present or disclose service performance by intended users;
- (h) Knowledge of other similar entities reporting format; and
- (i) Web and social media Open source searches.

Commented [MP31]: CAANZ comment was to refer to financial information -but consistent with para 17 we recommend use of financial statements.

Commented [MP32]: CAANZ suggestion

A30. The evaluation required by paragraph 22 may be iterative and may require re-evaluation as the auditor's understanding of the entity or the types of decisions that may be influenced on the basis of the service performance information by intended users grows, if the entity makes changes to its selection of service performance to report on or the methods used to measure, describe, aggregate, present or disclose service performance or as the auditor gathers audit evidence.

A31. Factors that the auditor may consider when evaluating relevance include:

- The rationale for the selection of what service performance to report on, for example, whether the service performance relates to a significant risk to the public (e.g., the purity of water supply) or that could have a positive or negative effect on social, economic, or environmental wellbeing.
- Whether the service performance information is likely to meet the needs of intended users so as to be useful for decision making, for example, is of significant community interest or interest to the public.
- The extent to which consultation with users has influenced the selection of what service performance to report and the methods used to measure, describe, aggregate, present or disclose service performance.
- Information that could significantly affect the reputation of the entity.
- Whether the service performance information shows clear and logical links between the service performance to be measured or evaluated and the entity's overall purpose and strategies so that the rationale for their selection is evident.

- Whether the methods used to measure, describe, aggregate, present or disclose service performance generate service performance information that is clearly linked with the financial information for example, relates to service performance that is financially material; or relates to a performance measure that may have a significant effect on management performance rewards.

A32. Factors that the auditor may consider when evaluating completeness include whether:

- All significant aspects of service performance that would enable the user to make an informed assessment are included;
- The service performance includes negative aspects of performance or areas where there is a significant risk of performance failure by the entity.

Completeness relates more to a balanced reflection of service performance rather than an overly comprehensive and extensive set of performance measures which can result in too much information, reducing the relevance of the report.

A33. Factors that the auditor may consider when evaluating reliability include whether:

- The service performance is capable of measurement or description in a consistent manner from period to period;
- The process is well defined and there is likely to be evidence to support the information generated;
- The service performance information is capable of validation by the auditor and will not result in unsubstantiated claims, including whether there is a robust and reliable collection process;
- The selection of service performance and the methods to measure, describe, aggregate, present or disclose service performance are likely to result in service performance information that is free from material misstatements, including omission of fact, or misrepresentation of trend;
- The methods to measure, describe, aggregate, present or disclose service performance are consistent with industry benchmarks, where these are available.

A34. Factors that the auditor may consider when evaluating neutrality include whether:

- The selected service performance and methods used to measure, describe, aggregate, present or disclose service performance are balanced, and are likely to result in information that is aggregated, where appropriate, and covers all important aspects, with suitable emphasis, to fairly reflect the significance to the entity's service performance;
- The selected service performance covers both favourable and unfavourable aspects of the entity's service performance in an unbiased manner;
- The selected service performance and methods used to measure, describe, aggregate, present and disclose the service performance are not changed arbitrarily to remove negative aspects of performance year on year.

Special care may be necessary to evaluate neutrality where, for example, there are no methods to measure, describe, aggregate, present or disclose service performance

established externally, no predetermined performance measures established with key stakeholders or no guidelines developed by an external industry group.

A35. Factors that the auditor may consider when evaluating understandability include whether:

- The format adopted is clearly laid out and presented in a way that will enable the user to identify the main points of the entity's service performance in that year;
- The assessment of service performance is coherent, easy to follow, and will result in service performance information that is clear and logical;
- The service performance information is concise and aggregated where appropriate;
- The information is explained and presented in a way that makes its significance clear.

Availability

A36. Entity-developed methods to measure, describe, aggregate, present or disclose service performance need to be made available to intended users to enable them to understand how the service performance has been measured or evaluated. The methods may be made available in one or more of the following ways:³⁶

- (a) Publicly.
- (b) Through inclusion in a clear manner in the presentation of the service performance information. Some performance measures may rely on complex methodologies. The auditor may consider whether complex methods are transparent, explained with sufficient detail and clarity so that they are considered to be available and enable the intended user to understand how the service performance has been assessed.
- (c) Through inclusion in a clear manner in the assurance report.
- (d) By general understanding, for example the method for measuring time in hours and minutes. The auditor may consider whether it is clear what the time is measuring. For example, an entity may measure its response time to an outage but will need to be clear as to whether the response time is measured from when a call is lodged, or measures the time taken to address a fault from when someone arrives to address the fault.

A37. In determining whether the methods used to measure, describe, aggregate, present and disclose the entity's service performance are available to intended users, the auditor may consider whether there will be enough context for the service performance information, including whether the rationale for determining:

- (a) What service performance to report on; and
- (b) Whether to include information about the role of other entities, collaborative relationships and the provision of resources to others

is transparent to users so that users can understand the judgements made in preparing the service performance information.

³⁶ EG Au1 Framework for Assurance Engagements, paragraph 47

A38. Disclosure of the judgements made by the entity is important in making the methods used to measure, describe, aggregate, present or disclose service performance available to intended users, where, for example, the entity has more discretion in selecting what service performance to report on and what methods to use (i.e., the methods are internally generated). Alternatively, the methods used may originate from an external performance framework supplemented by disclosures, in the general purpose financial report.

Communication

A39. In the early stages of reporting service performance information, the entity may not have developed an appropriate process, supported by internal controls, to identify what and how to report its service performance and may therefore be unable to include certain aspects of its service performance in its service performance information. The auditor exercises professional judgement to conclude on the impact of any such omissions (including those for which the entity has provided reasons or explanations). This is particularly relevant since entities may be at varying stages of maturity in respect of preparing service performance information.

A40. For example, in the early stages of an entity generating service performance information, an entity may focus its reporting on a particular area of service performance because reporting systems have not yet been established and implemented for other areas. The auditor may still be able to conclude that the selection of service performance and the methods used to measure, describe, aggregate, present or disclose service performance are suitable if there are:

- (a) Clear disclosures in the service performance information of the facts and reasons surrounding the exclusion of some service performance. However, if the entity makes no progress in developing reporting systems over time or continues to exclude service performance once reporting systems are established and implemented, the auditor may no longer be satisfied that the selection of service performance and methods used to measure, describe, aggregate, present or disclose service performance are suitable; and
- (b) The auditor concludes that the disclosures provided will assist intended users in their decision making.

A41. Service performance information reported because it is readily quantifiable may not be suitable and may not meet the principles of the applicable financial reporting framework. For example, the entity may select service performance to report on the basis that the selected performance is readily measurable. However, it may not be the most relevant information to enable the user to understand or assess the service performance of the entity during the year.

A42. Communication with those charged with governance in a timely manner may enable improvements to be made to the service performance information.

A43. Factors the auditor may consider in determining whether to perform further audit procedures include:

- (a) The pervasiveness of the matter;
- (b) The materiality of the matter;
- (c) Whether the auditor's concern is with respect to the presentation of the information

only;

- (d) Whether further audit procedures will enable the auditor to express an opinion on some of the service performance information.

Obtaining an Understanding of the Entity's Internal Control (Ref: Para. 30)

A44. Control activities that may be relevant to the audit of the service performance information include policies and procedures that pertain to internal management performance reviews,³⁷ including reviews and analyses of actual performance versus budgets and relating different sets of data – operating or financial – to one another. An understanding of the control activities that pertain to performance reviews will be especially relevant to the audit of the general purpose financial report and may assist the auditor to audit the service performance information concurrently with the financial information.

Materiality in Planning and Performing the Engagement (Ref: Para. 31–32)

Consideration of what service performance is included in the report

A45. The relevance of what service performance is selected to be included in the general purpose financial report is strongly linked with judgements made by the entity about the materiality of information. Service performance information is deemed to be material if it could reasonably be expected to influence the decisions of intended users taken on the basis of the general purpose financial report. The service performance information will not be considered to be complete if it does not contain all material service performance.

A46. The applicable financial reporting framework may discuss the concept of materiality in the context of preparation and presentation of service performance information.³⁸ Such a discussion provides a frame of reference to the auditor in determining materiality. The auditor's consideration of the entity's process to select what and how to report its service performance provides context in determining materiality.

A47. The evaluation required by paragraph 22 and factors considered by the auditor in paragraph A31 and A32, provides a frame of reference to the auditor in understanding what service performance information is of most significance to intended users, and may assist in identifying the risks of material misstatement in the service performance information.

A48. When determining materiality, the auditor may:

- Discuss the entity's process for determining material service performance information with management and those charged with governance (and, if necessary and appropriate, external stakeholders). It may be appropriate to discuss matters with external stakeholders when the determination of the entity's material service performance information includes, for example, clearly contentious issues or performance measures for which there is no evidence to support the entity's role in the improvements reported.

Commented [MP33]: CAANZ submission – Not all applicable financial reporting frameworks discuss the concept of materiality in the context of preparation and presentation of SPI. For example, Paragraph A42 of PBE SFR-A (NFP) talks about "outputs that are significant". We recommend this paragraph be revisited so that it can be applied to audit service performance information prepared by entities in all four tiers of the financial reporting framework.

Consider adding the word "may".

³⁷ ISA (NZ) 315 (Revised), Appendix 1, paragraph 9

³⁸ PBE IPSAS 1 *Presentation of Financial Statements*, paragraphs 46A.1–2 and Explanatory Guide A7: *Materiality for Public Benefit Entities*

- Consider whether the entity's determination of material service performance information is consistent with the auditor's knowledge of the entity and the environment, including reporting by similar entities and previous reporting by the entity and information obtained from sources such as minutes of meetings, media reports and any stakeholder outreach activities, including satisfaction surveys, feedback and complaints received, web and social media searches, targeted interviews or stakeholder workshops.

Materiality levels and factors

A49. The materiality levels are expressed in terms of the appropriate unit of account for each element or performance measure reported. The materiality level determines what level of misstatement will be tolerated by the auditor. Using a percentage is another commonly used way to establish such a level. It may be possible to group similar service performance information and make materiality decisions on the same basis if they have the same unit of account. The basis and level may differ from the basis and level for determining materiality as required by ISA (NZ) 320.

A50. There are multiple factors that may lead to a material misstatement:

- Omissions of fact – could omissions result in misleading the user?
- Misstatements of fact – could a misstatement result in misleading the user?
- Misrepresentation of trend – does the service performance information make claims that do not represent the facts available?
- Bias – does the service performance information focus unduly on positive aspects of performance, or omit negative aspects?
- Unsubstantiated claims.

A51. The following factors may assist the auditor when exercising professional judgement in determining whether there are material misstatements in either the qualitative or quantitative service performance information:

- How the information is presented. For example, does the presentation draw attention to particular information? The auditor may be less tolerant of misstatement in information that is given the most prominence.
- The relative volatility of reported service performance information. For example, if service performance information varies significantly from period to period.
- The number of persons or entities affected.
- The importance of the activity to achieving the entity's service performance objectives. For example, whether the performance measures related to the primary purpose of the entity. The more important the activity, the less tolerance for misstatement.
- The extent of interest shown in particular aspects of service performance by, for example, the legislation, funders, the media or the public and whether the service performance information is likely to cause funders to increase or decrease funding in the entity. The higher the level of interest shown, the lower the tolerance for misstatement. For matters where there is the most significant interest, the auditor may

be less accepting of potentially misleading or inaccurate information.

- (f) The type of performance measures and/or descriptions adopted, including the sensitivity of the information to error or the wording chosen to express a description. In some cases, there are particular types of disclosures for which misstatements of lesser or greater amounts are acceptable.
- (g) The interaction between, and relative importance of, various components of the service performance information when it is made up of multiple components, such as information that includes numerous performance measures or relates to an activity that is financially significant. The auditor may be less tolerant of misstatement for information that is given the most prominence.
- (h) The economic, social, political and environmental effect of a project or an entity's work, for example, there is a high level of wider societal interest in it, particularly high levels of public sensitivity, or relate to activity that could be a significant risk to the public.
- (i) Whether there is information about achieving a target or threshold, and the relationship of the actual performance to the target. For example, if the entity compares actual performance to a previously reported target, the auditor may be particularly diligent where a target has only just been achieved.
- (j) Whether a misstatement is the result of an intentional act or is unintentional. For example, intentional attempts to mislead users may result in the auditor performing more detailed work.
- (k) Whether a misstatement is significant having regard to the auditor's understanding of known previous communications to users.
- (l) Whether a particular aspect of the service performance information is significant with regard to the nature, visibility and sensitivity of the information. For example, there has been a large number of complaints relating to it, or relates to an activity that is strongly linked to management performance rewards.

A52. The auditor is unlikely to be able to set an overall materiality level because there is unlikely to be a common unit of account. It is also unlikely that the auditor will be able to aggregate misstatements. However, this does not remove the need for the auditor to form a conclusion as to whether uncorrected misstatements are material individually or collectively as required by paragraph 45.

A53. For historical financial information extracted from the audited financial statements, the engagement team auditor may determine that the materiality level used in the audit of the financial statements are acceptable for the purposes of the service performance information.

Commented [MP34]: CAANZ comment should this be opinion – "conclusion" may be confusing as it relates to limited assurance.

This term is used in the ISAs and does not refer to the overall opinion. Does the Board consider that opinion should be used instead of conclusion?

Commented [MP35]: CAANZ comment – should this be auditor

Identifying and Assessing Risks of Material Misstatement (Ref: Para. 34)

Assertions about service performance and related disclosures

A54. The auditor may use the assertions as described in paragraph A56 or may express them differently provided all aspects described below have been covered. For example, the auditor may choose to combine the assertions about occurrence and attribution.

A55. In the public sector, the entity may assert compliance with law or regulation, in addition to

the assertions set out in paragraph A56.

A56. Assertions used by the auditor in considering the different types of potential misstatements of service performance information that may occur may fall into the following categories:

- (a) Occurrence – service performance that has been reported has occurred.
- (b) Attributable to the entity – the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with.
- (c) Completeness – all significant service performance that should have been reported has been included in the service performance information.
- (d) Accuracy – service performance has been reported, measured and described appropriately and is not inconsistent with financial statement information.
- (e) Cut-off – the service performance has been reported in the correct period.
- (f) Presentation – service performance is appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable.

The Auditor's Responses to Assessed Risks (Ref: Para. 35–36)

A57. Procedures that may be performed include:

- (a) Testing and evaluating the systems, processes and controls that capture, record, analyse and monitor the service performance information;
- (b) Performing analytical review procedures;
- (c) Performing other substantive or re-performance tests.

A58. The quality of the systems used to record and control results, and the nature and quality of evidence available, may have an effect on the mix of procedures used. For instance, a weak recording or control system may force the auditor to use primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

A59. In some instances, there may not be control activities that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform audit procedures that are primarily substantive procedures. In rare cases, the absence of controls may make it impossible to obtain sufficient appropriate audit evidence.

Audit Evidence (Ref: Para. 37)

A60. Making correlations with audit evidence obtained in the audit of the financial statements, as far as possible, maximises the effectiveness of the audit of the general purpose financial report.

A61. The mix of procedures to be performed may vary compared with the mix used in regard to the financial information but does not alter the need to obtain sufficient appropriate audit evidence.

A62. The auditor's procedures may include:

- (a) Agreeing or reconciling amounts reported in the service performance information to

- any underlying financial records;
- (b) Agreeing cross references between the service performance information and the financial statements;
- (c) Understanding any allocation methods adopted and assumptions made, and determining whether the methods adopted are suitable, have been applied consistently and are consistent with the applicable financial reporting framework; and
- (d) Reconciling the aggregate amounts reported in the service performance information to the amounts reported in the financial statements.

Written Representations (Ref: Para. 41)

A63. The representation letter for the audit of the general purpose financial report includes references to the service performance information. An example of an illustrative representation letter for the audit of the general purpose financial report that includes service performance information is set out in Appendix 5.

Using the Work of an Auditor's Expert (Ref: Para. 42)

A64. Expertise in a field other than accounting or auditing may be necessary as a result of information included in the service performance information. Examples may include expertise in relation to such matters as:

- The measurement of complex performance measures, for example:
 - Climate change calculations;
 - Specific scientific measurements;
 - Social impact measurement
 - Human rights performance
 - People and diversity disclosure
- Assertions made about the entity's performance, for example, when reporting on the difference that the entity has made;
- Conformity assessments, ecolabelling and certification programmes.

Forming an Opinion and Reporting (Ref: Para. 43–44)

A65. The auditor's **conclusion** on the service performance information covers both:

- (a) Whether the selected service performance and the methods used to measure, describe, aggregate, present or disclose service performance are suitable so as to result in service performance information in accordance with the applicable financial reporting framework; and
- (b) Whether the service performance information represents the underlying service performance in accordance with the applicable financial reporting framework, including where relevant its fair presentation.

A66. Those charged with governance will make a number of judgements about the selection, measurement, description, aggregation, presentation and disclosure of the service

Commented [MP36]: CAANZ comment should this be opinion – "conclusion" may be confusing as it relates to limited assurance.

This term is used in the ISAs and does not refer to the overall opinion. Does the Board consider that opinion should be used instead of conclusion?

performance information reported. In considering the qualitative characteristics described in the applicable financial reporting framework, the auditor may become aware of management bias. The auditor may conclude that the collective effect of the lack of neutrality, together with the effect of uncorrected misstatements causes the service performance information to be materially misstated.

A67. The disclosure of the judgements made in selecting, measuring, describing and aggregating service performance information is particularly important so that users can understand how particular service performance is reported in the service performance information.

Report Content (Ref: Para. 7(b), 47–50)

A68. The auditor's report on the general purpose financial report includes references to the service performance information. An illustrative report that includes references to the service performance information is set out in Appendix 6.

A69. This NZ AS requires the auditor's report to include at least all elements required by ISA (NZ) 700 (Revised). However, this NZ AS allows for flexibility and an auditor may include additional information, as described in paragraphs A70-A71, resulting in a long-form report.

A70. The auditor's report identifies or refers to the methods used to measure, describe, aggregate, disclose and present the service performance information so the intended users can understand the basis for the auditor's opinion. The auditor's report may refer to the methods used to measure, describe, aggregate, present and disclose where the auditor has evaluated that the methods are available to intended users as part of the service performance information.

A71. The auditor's report may describe additional details relevant to the audit of the service performance information that do not affect the auditor's opinion. This information may be required by legislation or agreed in the terms of the engagement to assist intended users in decision making based on the service performance information. A long-form report should not be worded in a manner that it may be regarded as a modification of the auditor's opinion. The auditor's report may describe, for example:

- The underlying facts and information about the entity's process to select what service performance to report on (e.g., the maturity of the entity's process compared to others in the industry).
- The source of the methods used to measure, describe, aggregate, present or disclose service performance, and whether they are externally established (e.g., established in section xxx of applicable legislation or externally established performance frameworks).
- Any significant interpretations made in selecting what service performance to report on or applying the entity's methods to measure, describe, aggregate, present or disclose service performance in the circumstances.
- Whether there have been any changes in the methods used to measure, describe, aggregate, present or disclose service performance (e.g., changes in the performance measures used).
- Findings or recommendations for improvements to the service performance

information.

- Any other matters the auditor considers necessary to assist intended users in making decisions based on the service performance information.

A72. The auditor is encouraged to report their findings or recommendations where the auditor considers the information would enhance transparency and assist the user to understand the level of maturity that the entity has achieved in its reporting. Reporting of findings and recommendations may promote and also highlight to the user improvements in reporting over time.

Modifications to the Opinion in the Independent Auditor's Report (Ref: Para. 28, 52)

A73. A misstatement of the service performance information may arise in relation to:

- The suitability of the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance;
- The application of the methods used to measure, describe, aggregate, present or disclose service performance;
- Inadequate disclosure of judgements made, where applicable; or
- Incomplete disclosures that do not include all disclosures required by the applicable financial reporting framework or do not achieve fair presentation of the service performance information.

A74. In relation to the suitability of the selected service performance and methods used to measure, describe, aggregate, present or disclose service performance, material misstatements of the service performance information may arise, for example, when:

- The entity's methods are not consistent with the principles in the applicable financial reporting framework.
- The entity has not appropriately applied the qualitative characteristics, in accordance with the applicable financial reporting framework and therefore the service performance information does not enable a meaningful assessment of performance to be made by intended users.

A75. The auditor may determine that a material misstatement exists in the service performance information:

- When, in the auditor's professional judgement, the methods used to measure, describe, aggregate, present or disclose service performance are likely to mislead the intended users. A qualified opinion or adverse opinion would be appropriate in the circumstances depending on how material and pervasive the matter is.
- In other cases, a qualified opinion or a disclaimer of opinion would be appropriate depending on, in the auditor's professional judgement, how material and pervasive the matter is.

A76. In relation to the application of the methods used to measure, describe, aggregate, present or disclose service performance, material misstatements of the service performance information may arise:

- Due to a misapplication of the methods (e.g., an unintentional error in application).

A qualified opinion may be appropriate in the circumstances where there is a material misstatement that is not pervasive, depending on how material the matter is.

- (b) When the methods are not applied consistently to the service performance, or not applied consistently between periods.

A77. In relation to the appropriateness or adequacy of disclosures in the service performance information, material misstatements may arise when:

- (a) The service performance information does not provide all disclosures required by the applicable financial reporting framework.
- (b) The service performance information does not provide all disclosures necessary to achieve fair presentation of the service performance information.

A78. Appendix 4 includes illustrative auditor's reports with a qualified, adverse or disclaimer of opinion with respect to the service performance information.

A79. In many instances, a modification with respect to the service performance information will have no impact on the opinion on the financial statements.

Other Information (Ref: Para. 59)

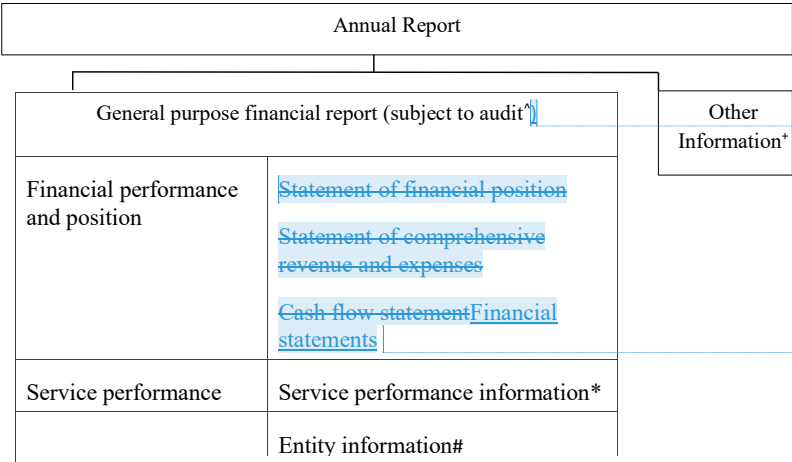
A80. Appendix 1 illustrates what constitutes other information for the purposes of this NZ AS.

A81. Other information, whether financial or non-financial information (other than the financial statement information and service performance information) may be included in an annual report. The auditor's opinion does not cover the other information. The auditor's responsibilities regarding other information within the annual report, but located outside of the general purpose financial report as defined in this NZ AS, is determined by ISA (NZ) 720 (Revised) and by this NZ AS.

Appendix 1

(Ref: Para. 3,7, 8, A3, A80)

What Constitutes the General Purpose Financial Report



Commented [MP37]: CAANZ comment

Commented [MP38]: CAANZ comment
Since the term 'financial statements' is used in the draft standard, it would be good to capture this in the diagram too, as well as 'financial statement information' if this term is also kept.
The Statement of Changes in Net Assets/Equity appears to be missing.
It could also be mentioned that other names may be used depending on the applicable financial reporting framework. By way of example; Performance Report, Statement of Financial Performance, Statement of Resources and Commitments, Statement of Receipts and Payments.

WE recommend keeping the diagram simple by using the term financial statements as referenced in the standard. These various options are addressed in the illustrative reports.

- [^] Some entities are required by law or regulation to have the general purpose financial report audited or reviewed. Other entities may elect to include service performance information within the scope of the audit. Where the service performance information is not included within the scope of the audit, this NZ AS does not apply.
- ^{*} Service performance information may be included in the general purpose financial report by cross-reference where the applicable financial reporting framework permits disclosures to be cross referenced.
- [#] Where entity information is required to be included in the general purpose financial report by the applicable financial reporting framework.
- ⁺ Other information may include forward looking information, other historical information and management discussion and analysis. ISA (NZ) 720 (Revised) addresses the auditor's responsibilities with respect to other information. ISA (NZ) 720 (Revised) applies to the service performance information when service performance information is not included within the scope of the audit.

Appendix 2

(Ref: Para. 22)

The Selected Service Performance and Methods Used to Measure, Describe, Aggregate, Present and Disclose the Service Performance

	Financial reporting framework	Preparer	Auditor
Financial statements	Detailed recognition and measurement requirements established in PBE Standards	Apply the recognition and measurement requirements and disclose the accounting policies applied	The recognition and measurement requirements from PBE Standards are suitable
Service performance information	Principles require the preparer to apply the qualitative characteristics and pervasive constraints	Apply the entity's process to select what service performance to report and what methods to use to measure, describe, aggregate, present and disclose the service performance	Auditor evaluates whether the entity selected service performance and methods used are suitable

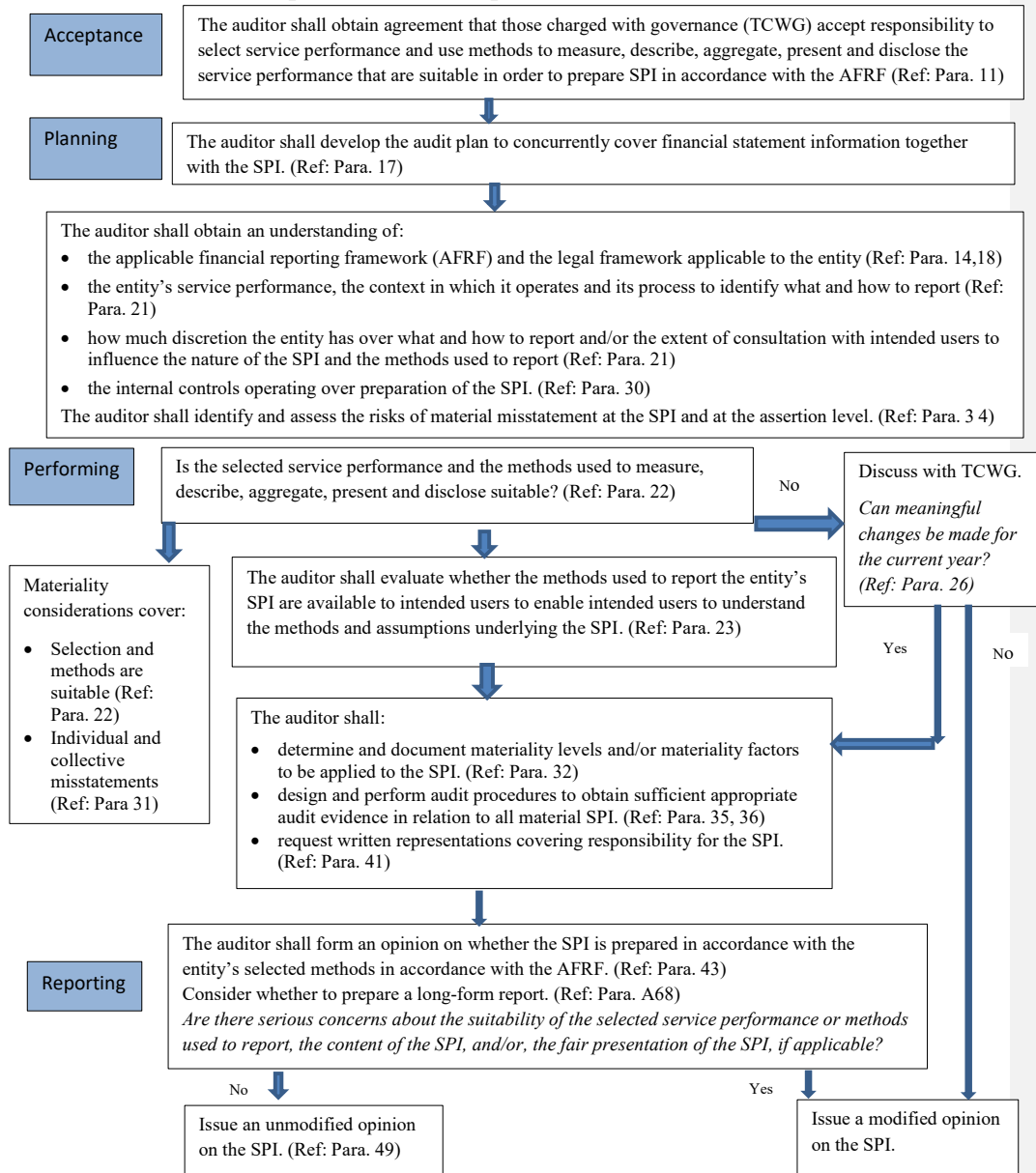
Is the selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance suitable? (Ref: Para 22) ³⁹	These may be articulated differently in the applicable financial reporting framework (Ref: Para. A29) ⁴⁰
Relevance	Relevance including timeliness
Reliability	Includes verifiability
Completeness Neutrality	Faithful representation including: Completeness Neutrality
Understandability	Understandability and comparability

³⁹ EG Au1A, *Framework for Assurance Engagements*, paragraph 44.

⁴⁰ The qualitative characteristics are described in PBE FRS 48 paragraph 9.

Appendix 3

Flowchart of the Audit of Service Performance Information (SPI) included in the General Purpose Financial Report (GPFR)



Appendix 4

(Ref: Para. A13)

Illustrative Engagement Letter Including Service Performance Information

The following is an example of an audit engagement letter for an audit of the general purpose financial report, including service performance information prepared in accordance with an applicable fair presentation financial reporting framework issued by the New Zealand Accounting Standards Board. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in the ISAs (NZ) including this NZ AS 1. It will need to be varied according to individual requirements and circumstances.

To the Chairperson:⁴¹

[The objective and scope of the audit]

You have requested that we audit the *[general purpose financial report/performance report]* of ABC [Entity], which comprise the financial statements, the *[service performance information/statement of service performance]* *[and the entity information]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the *[entity information, financial statements as a whole, and the service performance information/statement of service performance]* are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of this *[general purpose financial report/performance report]*.

[The responsibilities of the auditor]

We will conduct our audit of the financial statements in accordance with ISAs (NZ) and the audit of the service performance information in accordance with the ISAs (NZ) and NZ AS 1. Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ) and NZ AS 1, we exercise professional judgement and maintain professional

⁴¹ The addressees and references in the letter would be those appropriate in the circumstances of the engagement. It is important to refer to the appropriate persons – refer to ISA (NZ) 210 paragraph A22.

scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [*entity information, the financial statements and the service performance information*], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of [*the entity information*], the financial statements and the service performance information 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. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the [*general purpose financial report/performance report*] that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain an understanding of the process applied by the entity to select what and how to report its service performance.
- Evaluate whether the selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information that is in accordance with the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*].
- Evaluate the overall presentation, structure and content of the [*general purpose financial report/performance report*] and whether the [*general purpose financial report/performance report*] represents the underlying transactions, events and service performance in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] [in a manner that achieves fair presentation].
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the [*general purpose financial report/performance report*] or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (NZ).

[*The responsibilities of those charged with governance and identification of the applicable financial reporting framework*]

Our audit will be conducted on the basis that [those charged with governance] acknowledge and understand that they have responsibility on behalf of the entity for:

- (a) The preparation [and fair presentation] of the [entity information], financial statements and [service performance information/statement of service performance] in accordance with [Public Benefit Entity Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)];
- (b) The selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]; and
- (c) Such internal control as [they] determine is necessary to enable the preparation of the [financial statements and [service performance information/statement of service performance]] that are free from material misstatement, whether due to fraud or error; and
- (d) To provide us with:
 - (i) Access to all information of which [management and those charged with governance] are aware that is relevant to the preparation of the [general purpose financial report/performance report] such as records, documentation and other matters;
 - (ii) Additional information that we may request from [management or the directors] for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

Commented [MP39]: CAANZ comment

As part of our audit process, we will request from [those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

[Insert appropriate reference to the expected form and content of the auditor's report.]

The form and content of our report may need to be amended in the light of our audit findings [and may be in long-form, including findings or recommendations related to the entity's service performance information.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the [general purpose financial report/performance report] including our respective responsibilities.

[Governing body]

Acknowledged and agreed on behalf of the [Governing body] by

(signed)
.....

Name and Title

Date

Appendix 5

(Ref: Para. A61)

Illustrative Representation Letter Including Service Performance Information

The following illustrative letter includes written representations that are required by this standard and other ISAs (NZ). It is assumed in this illustration that the applicable financial reporting framework is a fair presentation framework, and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the *[general purpose financial report/performance report]*⁴² of ABC Entity for the year ended December 31, 20XX which comprise the financial statements, the *[service performance information/statement of service performance]* *[and the entity information]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, and the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies for the purpose of expressing an opinion as to whether the *[general purpose financial report/performance report]* presents fairly, in all material respects, (or gives a true and fair view of):

- *[the entity information as at December 31, 20XX]*;
- the financial position of the *[entity]* as at December 31, 20XX, and (of) its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20XX in accordance with *[the entity's]* methods to measure, describe, aggregate, present and disclose its service performance

in accordance with *[Public Benefit Entity (PBE) Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]*.

We confirm that *(to the best of our knowledge and belief, having made such enquiries as we considered necessary for the purpose of appropriately informing ourselves)*:

[General Purpose Financial Report/Performance Report]

We have fulfilled our responsibilities on behalf of *[the entity]*, as set out in the terms of the audit engagement dated *[insert date]*:

- For the preparation, and fair presentation of the *[entity information]*, financial statements and *[service performance information/statement of service performance]* in accordance with

⁴² Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

Commented [MP40]: CAANZ comment

[*PBE Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

- To select ~~of~~ service performance and use ~~of~~ methods to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] (NZ AS 1)
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (ISA (NZ) 540)
- Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*]~~PBE Standards~~. (ISA (NZ) 550)
- All events subsequent to the date of the financial statements which require adjustment or disclosure have been adjusted or disclosed. (ISA (NZ) 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate or collectively, to the [financial statements as a whole and *service performance information/statement of service performance*]. A list of the uncorrected misstatements is attached to the representation letter. (ISA (NZ) 450)
- [Any other matters that the auditor may consider appropriate.]

Information Provided

- We have provided you with⁴³:
 - Access to all information of which we are aware that is relevant to the preparation of the [*general purpose financial report/performance report*] such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the [financial statements and *service performance information/statement of service performance*] may be materially misstated as a result of fraud. (ISA (NZ) 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;

⁴³ If the auditor has included other matters relating to the responsibilities of those charged with governance in the audit engagement letter in accordance with ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from those charged with governance.

Commented [MP41]: CAANZ comment

- Employees who have significant roles in internal control; or
- Others where the fraud could have a material effect on the [*general purpose financial report/performance report*]. (ISA (NZ) 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's [*general purpose financial report/performance report*] communicated by employees, former employees, analysts, regulators or others. (ISA (NZ) 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing a [*general purpose financial report/performance report*]. (ISA (NZ) 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ISA (NZ) 550)
- We will provide the final version of the documents determined to comprise the annual report to the auditor when available, and prior to its issuance by the entity.⁴⁴ (ISA (NZ) 720 (Revised))
- [Any other matters that the auditor may consider necessary.]

Governing body member

Governing body member

⁴⁴ This is only required when the other information is not available until after the date of the auditor's report.

Appendix 6

(Ref: Para. A66)

Illustrative Auditor's Report Including Service Performance Information

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a general purpose financial report/performance report of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework⁴⁵. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The general purpose financial report/performance report is prepared by management of the entity in accordance with a general purpose framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the general purpose financial report/performance report in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To Appropriate Addressee

Opinion

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the financial statements on pages *x to xx*, the *[service performance information/statement of service performance]* on pages *x to xx [and the entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of*

⁴⁵ The general purpose financial report may be referred to as a performance report and include entity information, according to the requirements of the applicable financial reporting framework.

changes in net assets/equity], statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying [*general purpose financial report/performance report*] presents fairly, in all material respects, (or *gives a true and fair view of*):

- [*the entity information as at December 31, 20X1*];
- the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance

in accordance with [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

[For a long-form report, include a separate section, under an appropriate heading, for example:

- Underlying facts and information about the entity's process to select what service performance to report on (e.g., the maturity of the entity's process compared to others in the industry).
- The source of the methods used to measure, describe, aggregate, present or disclose service performance, and whether those methods are externally established.
- Any significant interpretations made in selecting what service performance to report on or applying the entity's methods to measure, describe, aggregate, present or disclose service performance in the circumstances.
- Whether there have been any changes in the entity's methods used to measure, describe, aggregate, present or disclose service performance (e.g., changes in the performance measures used).
- Findings or recommendations for improvements to the service performance information.
- Any other matters the auditor considers necessary to assist intended users in making decisions based on the service performance information.]

Basis for Opinion

We conducted our audit of the [*financial statements*] in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs and New Zealand Auditing Standard (NZ AS) 1 *The Audit of Service Performance Information* (NZ). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Other Information [or another title if appropriate such as “Information other than the general purpose financial report/performance report and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 1 in Appendix 2 of ISA (NZ) 720 (Revised).]

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

Those charged with governance are responsible on behalf of the [entity]:

- (a) for the preparation and fair presentation of the [entity information], financial statements and [service performance information/statement of service performance] in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)] issued by the New Zealand Accounting Standards Board;
- (b) to select service performance and use methods to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]; and
- (c) for such internal control as those charged with governance determine is necessary to enable the preparation of the financial statements and [service performance information/statement of service performance] that are free from material misstatement, whether due to fraud or error.

In preparing the [general purpose financial report/performance report], those charged with governance are responsible for assessing the [entity’s] ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intend to liquidate the [entity] or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

Our objectives are to obtain reasonable assurance about whether the [entity information, financial statements as a whole, and the service performance information/statement of service performance] are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and NZ AS 1 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate or collectively, they could reasonably be expected to

influence the decisions of users taken on the basis of this [*general purpose financial report/performance report*].

A further description of the auditor's responsibilities for the audit of the [*general purpose financial report/performance report*] is located at the XRB's website at <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

Paragraph 41(b) of ISA (NZ) 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report.

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/>.

As part of an audit in accordance with ISAs (NZ) and NZ AS 1, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the [*entity information, the financial statements and the service performance information*], whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of [*the entity information*], the financial statements and the service performance information 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain an understanding of the process applied by the entity to select what and how to report its service performance.
- Evaluate whether the selected service performance and the methods used to measure, describe, aggregate, present and disclose the service performance are suitable so as to result in service performance information that is in accordance with the [*Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*].
- Evaluate the overall presentation, structure and content of the [*general purpose financial report/performance report*] and whether the [*general purpose financial report/performance report*] represents the underlying transactions, events and service performance in accordance with [*Public Benefit Entity Standards/ Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] in a manner that achieves fair presentation.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the

[entity]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the *[general purpose financial report/performance report]* or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity] to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Appendix 7

(Ref: Para. A76)

Illustrations of Auditor's Reports with Modifications to the Opinion with Respect to the Service Performance Information

- Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information.
- Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information.
- Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information.
- Illustration 4: An auditor's report containing a qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements.

Illustration 1: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the financial statements on pages *x to xx*, the *[service performance information/statement of service performance]* on pages *x to xx [and the entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*) the *[entity information and the]* financial position of the [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/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance and with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[As reported in the service performance information on page xx, the entity has identified its service performance as *[describe improvements reported or description of the difference that the entity has made]* and measured this performance by *[list performance measures and/or descriptions reported]* to report its service performance. The entity has not been able to provide evidence of its role in those particular improvements and therefore should not have reported this improvement.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and

Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 2: An auditor's report containing an unmodified opinion on the financial statements and an adverse opinion due to a material misstatement of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the financial statements on pages *x to xx*, the *[service performance information/statement of service performance]* on pages *x to xx [and the entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*) the *[entity information and the]* financial position of the [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 Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Adverse Opinion on the Service Performance Information

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/ performance report]* does not present fairly (or *does not give a true and fair view of*) the service performance of the [entity] *[on pages x to xx]* for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance and with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Adverse Opinion on the Service Performance Information

[As reported in the service performance information on pages ..., the entity has identified its service performance to include [list appropriate goods and services] and measured and evaluated this performance with reference to [describe performance measures and/or descriptions reported] to report its service performance. We do not consider that these performance measures will enable a meaningful assessment of the service performance of the entity for the year ended December 31, 20X1 to be made. Had the entity identified more meaningful performance measures, the service performance information would have been materially affected, reporting performance measures including xxx and linking to its responsibility for yyyy.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the

Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report] section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 7 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 3: An auditor's report containing an unmodified opinion on the financial statements and a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the service performance information

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Opinions

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the financial statements on pages *x to xx*, the *[service performance information/statement of service performance]* on pages *x to xx [and the entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion on the [Entity Information and] Financial Statements

In our opinion, the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects, (or *gives a true and fair view of*) the *[entity information and the]* financial position of the [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/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Qualified Opinion on the Service Performance Information

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion on the Service Performance Information* section of our report the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects (or *gives a true and fair view of*) the service performance of the [entity] for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance and with *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion on the Service Performance Information

[Some significant performance measures of the entity, rely on information from third parties, such as (give examples). The entity's control over much of this information is limited, and there are no practical audit procedures to determine the effect of this limited control. For example, *[describe performance measure and explain where information comes from that we are unable to independently test.]*]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance*

Report] section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information]

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Illustration 4: Qualified opinion on both the financial statements and the service performance information due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial statements

INDEPENDENT AUDITOR'S REPORT

To [Appropriate Addressee]

Qualified Opinion on the [General Purpose Financial Report/Performance Report/

We have audited the *[general purpose financial report/performance report]* of ABC [entity], which comprise the financial statements on pages *x to xx*, the *[service performance information/statement of service performance]* on pages *x to xx [and the entity information on page x]*. The complete set of financial statements comprise the statement of financial position as at December 31, 20X1, the *[statement of financial performance/statement of comprehensive revenue and expense, statement of changes in net assets/equity]*, statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report the accompanying *[general purpose financial report/performance report]* presents fairly, in all material respects (or *gives a true and fair view of*):

- *[the entity information as at December 31, 20X1];*
- the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance, and its cash flows for the year then ended; and
- the service performance for the year ended December 31, 20X1 in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance

in accordance with [Public Benefit Entity Standards/*Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)*] issued by the New Zealand Accounting Standards Board.

Basis for Qualified Opinion

[As outlined on page *xx* of the *[general purpose financial report/ performance report]*, [entity] has not applied the requirements of the *[Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)]* to its grant expenditure. We have been unable to obtain sufficient audit evidence to quantify the effects of this limitation. As a result of this matter, we were unable to quantify the adjustments that are necessary in respect of grant expenditure in the *[statement of comprehensive revenue and expenses]*; assets, liabilities and equity in the statement of financial position, *[total comprehensive revenue and expense]* and opening and closing equity in the *[statement of changes in equity]* and grants expense reported in the *[service performance information/statement of service performance]*.]

We conducted our audit of the *[financial statements]* in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and the audit of the service performance information in accordance with the ISAs (NZ) and New Zealand Auditing Standard 1 *The Audit of Service Performance Information*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]* section of our report. We are independent of the [entity] in accordance with Professional and

Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Other Information [or another title if appropriate such as “Information other than the [general purpose financial report/performance report] and auditor’s report thereon”]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised) – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information].

Responsibilities of Those Charged with Governance for the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

Auditor’s Responsibilities for the Audit of the [General Purpose Financial Report/Performance Report]

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 3A in ISA (NZ) 700 (Revised)].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]

[Auditor Address]

[Date]

Conforming Amendments to Other Pronouncements

New text is underlined.

Conforming amendments to XRB Au1 Application of Auditing and Assurance Standards

Appendix 2 lists the International Standards on Auditing (New Zealand) to be applied in conducting audits of historical financial information.

Appendix 2A will be added as follows:

Appendix 2A

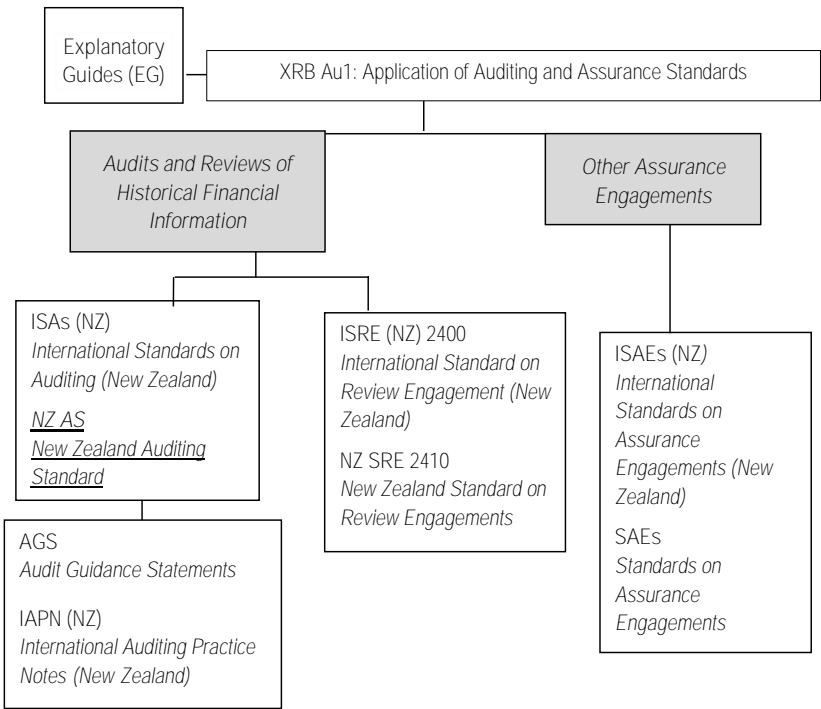
New Zealand Auditing Standards

This appendix is an integral part of the Standard

This appendix lists the New Zealand Auditing Standards to be applied in conjunction with the International Standards on Auditing (New Zealand) in conducting an audit of general purpose financial reports which comprise the financial statements and service performance information.

NZ AS 1 The Audit of Service Performance Information

Appendix 6 Overview of Auditing and Assurance Standards of the XRB is to be amended as follows:



NZ AS 1

ACCOMPANYING ATTACHMENT: CONFORMITY TO INTERNATIONAL AND AUSTRALIAN STANDARDS ON AUDITING

This conformity statement accompanies but is not part of NZ AS 1.

Conformity to International Standards on Auditing

There is no equivalent International Standard on Auditing (ISA), issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Comparison with Australian Auditing Standards

There is no equivalent Australian Auditing Standard, issued by the Australian Auditing and Assurance Standards Board (AUASB).



Australian Government
Auditing and Assurance Standards Board

Podium Level 14, 530 Collins Street
Melbourne VIC 3000 Australia
PO Box 204, Collins Street West
Melbourne VIC 8007

19 September 2018

Mr Robert Buchanan
Chair
New Zealand Auditing and Assurance Standards Board
Manners Street
Central Wellington 6142

Dear Robert,

AUASB Technical Group Comments on the NZAuASB Limited Scope Review Draft of NZ AS 1 *The Audit of Service Performance Information*

We are pleased to have the opportunity to comment on the NZAuASB's Limited Scope Review Draft of NZ AS 1 *The Audit of Service Performance Information*.

Overall, the Australian Auditing and Assurance Standards Board (AUASB) are very supportive of the leading role that the New Zealand Auditing and Assurance Standards Board (NZAuASB) has taken in developing and issuing a standard on the audit of service performance information (SPI) under the New Zealand reporting framework.

In formulating this response, the AUASB Chair and Technical Group (ATG) have been actively involved in the NZAuASB project to develop this standard. This involvement has included attending subcommittee meetings to monitor and provide feedback as the exposure draft has progressed, and considering implications for the Australian reporting and assurance frameworks and Australian users of this type of information.

The ATG are satisfied that the NZAuASB have dealt with the key areas raised by respondents on exposure and that these have been appropriately reflected in the draft of NZ AS 1 *The Audit of Service Performance Information*. Through our review and evaluation process the ATG have not identified any fatal flaws that make NZ AS 1 *The Audit of Service Performance Information* unworkable or would result in unintended consequences for the auditor when undertaking these engagements.

Should you have any queries regarding these comments, please do not hesitate to contact me at mzappulla@auasb.gov.au or Marina Michaelides at mmichaelides@auasb.gov.au.

Yours sincerely,

Matthew Zappulla
Technical Director



1 October 2018

Warren Allen
Chief Executive
External Reporting Board
PO Box 11-250
Manners Street Central
WELLINGTON 6142

Dear Warren

LIMITED SCOPE REVIEW DRAFT – THE AUDIT OF SERVICE PERFORMANCE INFORMATION

We have read the Limited Scope Review Draft of NZ AS 1 *The Audit of Service Performance Information* that was issued for comment in August 2018 (the proposed standard). The proposed standard was issued for the purpose of inviting feedback on whether it is:

1. Unworkable; or
2. May result in unintended consequences.

In reading the proposed standard, we assessed whether it had addressed the matters in our letter dated 21 December 2017 in response to NZAuASB ED 2017-2. We acknowledge that extensive changes have been made to the proposed standard in response to concerns raised by our office. However, we still have some significant concerns with the latest version of the proposed standard. As a result, it is our view that the proposed standard, in its current form, is unworkable and may result in unintended consequences. The reasons for our view are set out in Appendix 1 to this letter.

This is an important standard. It is essential that the time is taken to get the settings right so that auditors can readily engage with the standard and know what is required of them. Because service performance reporting is an emerging area it is also important that auditors are not seen as inhibiting innovative ways of reporting performance that is permitted under the New Zealand Accounting Standards Board standard, *PBE FRS 48: Service Performance Reporting*.


We also consider it is important that, as much as possible, evidence is provided to demonstrate that the proposed standard contributes positively to the public interest it is intended to serve. Consequently, we consider that the NZAuASB should endeavour to quantify the compliance and audit cost implications of the proposed standard together with the accompanying benefits.

We appreciate that the proposed standard is primarily intended to assist auditors in the not-for-profit sector who will be carrying out audits of service performance information for the first time. Although the Auditor-General cannot speak for this category of auditors, it is our sense that the proposed standard may not be helpful to them because it is overly complex and does not communicate its requirements in plain English in the context of audits of relatively simple statements of service performance.

I reiterate our comfort to support the continued development of the proposed standard by making Office staff available to elaborate on our concerns and possible solutions, if that would be helpful.

If you have any questions about our submission, please contact Todd Beardsworth at todd.beardsworth@oag.govt.nz.

Yours sincerely



Greg Schollum
Deputy Controller and Auditor-General

Appendix 1 – The Auditor-General’s Comments on Limited Scope Review Draft of NZ AS 1 *The Audit of Service Performance Information*

1. Consistent use of terminology in External Reporting Board standards and guidance

The proposed standard contains terms that are different to the accounting standards. In our view, this is a fundamental matter that must be addressed if the proposed standard is to be workable and avoid the possibility of unintended consequences.

Our concern is that auditors must use the same language as preparers. In this regard, we specifically refer to the “qualitative characteristics” and “pervasive constraints” that form the framework for service performance reporting in the New Zealand Accounting Standards Board standard PBE FRS 48: *Service Performance Reporting*. Otherwise there will be confusion and the real possibility that auditors will apply different standards to preparers. This situation is concerning, particularly when the accounting standards have been set within a permissive framework to allow innovative means of reporting service performance.

2. Selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity’s service performance

In line with our concern in section 1 above, we note that the proposed standard introduces the concept of an entity’s “selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity’s service performance”. We have three observations to make about the application of this concept in the proposed standard.

- (a) Selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity’s service performance is a new concept. Unless there is a complete understanding of this concept by both preparers and auditors, and what this means for reporting and auditing service performance information, the inclusion of this concept in the proposed standard makes it unworkable.

We consider the term selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity’s service performance in the proposed standard to be a problem because:

- This is not a consideration for preparers of service performance information;
- It is not a “standard” or “frame of reference” for all preparers and auditors of service performance information. Instead, it is an entity specific concept; and
- It is not clear what it means.

In our opinion, the proposed standard needs to refer directly to the qualitative characteristics and pervasive constraints in PBE FRS 48.

We note that paragraph 22 of the proposed standard attempts to describe a relationship between the qualitative characteristics and the selected service performance and the methods used to measure, describe, aggregate, present and disclose the entity’s service performance.

- (b) The proposed standard imposes a disclosure requirement on the auditor that is the preparer’s responsibility. Disclosure is the responsibility of the preparer under the applicable accounting standard. The proposed standard should not place a disclosure requirement on the auditor,

particularly when the proposed standard requires significantly more disclosure than is required under the accounting standard.

Specifically, the proposed standard includes a requirement for the auditor to evaluate whether the entity's methods used to measure, describe, aggregate, present and disclose the entity's service performance are available to the users. Whilst we disagree that the concept of methods should be included in the proposed standard in the first place, we are concerned that the proposed standard places a disclosure obligation on the auditor to evaluate if the methods are available to intended users. For example, paragraph 23 states:

*"The auditor **shall evaluate whether the entity's methods** used to measure, describe, aggregate, present and disclose the service performance **are available to intended users** so as to enable intended users to understand the methods and assumptions underlying the information, for example, disclosed in the judgements reported as part of the service performance information or by cross reference."*

There is no indication that users want this information. For a department or council with many measures, this would be a lot of information and an onerous requirement for preparers and auditors for no clear benefit. We consider it both unworkable and having an unintended consequence of significant extra effort for preparers to document and make this information available for users (who have not asked for it).

(c) Implications for the audit report.

The proposed audit report opinion on the service performance information is worded:

"In our opinion the accompanying general purpose financial report presents fairly, in all material respects:

- the financial position of the [entity] as at December 31, 20X1, and its financial performance, and its cash flows for the year then ended; and*
- the service performance for the year ended December 31, 20X1 **in accordance with [the entity's] methods to measure, describe, aggregate, present and disclose its service performance***

in accordance with [Public Benefit Entity Standards/Public Benefit Entity Simple Format Reporting] issued by the New Zealand Accounting Standards Board."

The bold text has been added since the original ED. We consider it unnecessary and confusing. We note that the standard should be seeking compliance with generally accepted accounting practice, rather than compliance with an entity's own methods. The methods are the means by which the entity achieves compliance with generally accepted accounting practice.

3. The proposed standard is difficult to understand

Whilst the proposed standard is an improvement on NZAuASB ED 2017-2, it is still difficult to read and understand. The proposed standard is primarily intended to assist auditors in the not-for-profit sector who will be carrying out audits of service performance information for the first time. This means the proposed standard must communicate its requirements to auditors for the audits of relatively simple statements of service performance in plain English.

In our view, the main body of the proposed standard should include only a small number of essential requirements. Application and Explanatory Information should provide helpful guidance to auditors

on the practical application of the requirements. This recognises that auditors are busy people. Unless the proposed standard is clear and readable there is a good chance that it will not be properly understood, which could lead to it being misapplied.

4. Scope of the proposed standard

We are concerned that the proposed standard may lead auditors to limit their audit to “service performance information” and, in doing so, cause preparers to also limit their reporting to service performance information. Unfortunately, this deficiency is also present in the accounting standard PBE FRS 48 because it is titled *Service Performance Reporting*.

Reporting performance information is a developing area. There are different, and sometimes better, ways of reporting performance beyond a *service performance* dimension. Both PBE FRS 48 and the proposed standard allow for broader information to be reported, as service performance information is explained as follows:

*“Service performance information is information about what the entity has done during the reporting period in working towards its broader aims and objectives, **together with supporting contextual information**” [emphasis added].*

It is the “supporting contextual information” that allows for broader information to be reported and audited.

The proposed standard now explains service performance information in paragraph A1 under the “Application and Other Explanatory Guidance” heading. However, we consider that the proposed standard should specifically state that, under the “Scope of this NZ AS” heading at the beginning of the proposed standard, the proposed standard applies equally to any supporting contextual information.

We make this point because meaningful performance reporting in the public sector is trending towards how individual entities collectively contribute towards a wider objective. Such reporting may also apply to entities in the not-for-profit sector.

To: XRB Committee
From: Prof Karen Van Peursem PhD CA, CPA (USA ret)
Date: 3 October 2018

Re: Limited Scope Review Draft: The Audit of Service Performance Information

My apologies for being slightly past the due date, but I wanted to submit my (complimentary) comment on the draft. I have researched and published extensively on 'performance measures' as well as 'audit', so I was particularly interested in how the selection of 'performance' goals would be delegated, and with how 'materiality' would be determined.

Given, in particular, the content of the paragraphs (below), I believe the draft does allow for an appropriate allocation of responsibility (to the governing board) – albeit with support from the auditor as left to their discretion. It also focusses on the 'user needs' (I would suggest 'accountability' as well in a public sector entity) in terms of what may or may not be 'material'. This focus is important as, for example, one serious mis-performance in the health sector may be 'material' and cannot necessarily be adjudged on financial terms.

These comments are submitted on (only) my behalf. Thank you for your time and attention.
Kind regards
Karen Van Peursem, Professorial Fellow
Victoria University of Wellington

Written Representations

41. The auditor shall request written representations from those charged with governance, with appropriate responsibilities for and knowledge of the service performance information, that they have fulfilled their responsibility:

(a) For the preparation of service performance information in accordance with the applicable financial reporting framework

(b) To select service performance and use methods to measure, describe, aggregate, present and disclose the service performance that are suitable in order to prepare service performance information in accordance with the applicable financial reporting framework.¹⁸ (Ref: Para. A63)

Communication with Those Charged with Governance (Ref: Para. 16)

A15. The preparation of service performance information is highly judgemental. As a result, the auditor's views on the judgemental areas of reporting the entity's service performance may be particularly relevant to those charged with governance in discharging their responsibilities for the preparation of the service performance information. Open and constructive communication including feedback on the maturity of the entity's process to select what service performance to report on, the suitability of its methods used to measure, describe, aggregate, present and disclose its service performance or how the information compares to other entities may drive improvements in reporting over time. This may include comments about, for example, judgemental aspects of what service performance to report on, concerns regarding management bias or the quality of the presentation of the information.

(Cited from the draft, 3 October 2018)

Chief Executive
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

Email: submissions@xrb.govt.nz.

28 September 2018

Dear Sir

Feedback on Limited Scope Review Draft NZ AS 1 The Audit of Service Performance Information

KPMG welcomes the opportunity to provide comments on the Limited Scope Review Draft NZ AS 1 The Audit of Service Performance Information. We have reviewed that paper, and our comments are set out below.

KPMG New Zealand is part of the global network of KPMG firms. The firm is one of New Zealand's largest chartered accountancy firms, with seven offices and more than 1,000 partners and staff. Our practice as Chartered Accountants gives us extensive experience of a range of professional services that are valued by the wide variety of entities and individuals that participate in capital market and investment activities in New Zealand. In responding to this consultation, we draw on our areas of expertise in preparation and presentation of financial information, financial reporting compliance, and in the provision of assurance and related services.

1. As to whether we consider New Zealand Auditing Standard 1 to be unworkable, identifying what requirements are considered to be unworkable, reasons why and suggestions for changes.

We believe paragraphs 16.a, 26 and 30 of the New Zealand Auditing Standard 1 (the "Standard") to be unworkable for the following reasons;

- Paragraph 16.a of the Standard states that the auditor shall communicate any deficiencies or areas of improvement relating to the judgements made in reporting the entity's service performance information. Our concern is around the use of the word 'any' as it may not be practicable to communicate all deficiencies or improvement areas. We suggest changing the wording to 'any significant deficiencies or areas for improvement'.
- Paragraph 26 states that the auditor shall discuss those matters identified in paragraphs 26.a – 26.a 'as soon as possible'. We believe this to be unworkable as it may not always be appropriate to communicate those matters 'as soon as possible'. We suggest removing the wording 'as soon as possible', which aligns with the wording used in ISA (NZ) 705, paragraph 30.
- We interpret paragraph 30 of the Standard to require the auditor to evaluate the design and implementation of *all* controls relating to the preparation of the service performance information. We believe this to be unpractical as not all controls will be relevant to the audit. We suggest

changing the wording of this paragraph to 'Obtain an understanding of internal controls relevant to the audit...', which is consistent with the wording used in ISA (NZ) 315, paragraph 13.

2. As to whether we believe that the Standard may result in unintended consequences, identifying what those consequences may be and suggestions as to how to avoid such unintended consequences.

We do not believe that the Standard will result in any unintended consequences and have no comments to provide on this matter.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Darby Healey', written in a cursive style.

Darby A Healey

Partner

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 7.1
Meeting date: 24 October 2018
Subject: Auditing Accounting Estimates
Date: 27 September 2018
Prepared by: Sharon Walker

<input checked="" type="checkbox"/> Action Required	<input type="checkbox"/> For Information Purposes Only
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Agenda Item Objectives

1. The objective of this agenda item is for the Board to:
 - APPROVE International Standard on Auditing (New Zealand) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, and Conforming Amendments to ISAs (NZ) and Other Pronouncements
 - APPROVE the signing memorandum.

Background

Domestic

2. Detailed discussion of the background and an analysis of the comments made in the NZAuASB submission and their related disposition by the IAASB was presented at the September 2018 NZAuASB meeting. This discussion is also summarised in the draft signing memorandum at agenda item 7.4.
3. The Board has not identified any compelling reason amendments. Extant ISA (NZ) 540 contains no compelling reason amendments.

Australia

4. The AUASB approved the issue of Exposure Draft ASA 540 *Auditing Accounting Estimates and Related Disclosures* and related conforming amendments at its 31 July 2018 meeting held via teleconference.
5. One of the key issues that the AUASB has centres around the expectation of the auditor in relation to the point estimate/range calculation. The AUASB is concerned regarding the shift of onus from preparer to auditor where the preparer has not fully understood or taken into account estimation uncertainty. To this end, the AUASB has now sought feedback on these particular requirements in its invitation to comment. Submissions on proposed ASA 540 are due on 15 October 2018. We will provide a verbal update to the Board about this.

6. No compelling reason amendments have been proposed by the AUASB.

Matters to Consider

7. The Board is asked to CONSIDER and APPROVE the final ISA (NZ) 540 (Revised) and related Conforming Amendments to ISAs (NZ) and Other Pronouncements and APPROVE the signing memorandum.
8. The draft ISA (NZ) 540 (Revised), agenda item 7.2, and Conforming Amendments to ISAs (NZ) and Other Pronouncements, agenda item 7.3, will be gazetted once approved by the Board.
9. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require the disclosures of personal information. No such consultation is required in relation to this standard.

Material Presented

Agenda item 7.1	Board meeting summary paper
Agenda item 7.2	Draft ISA (NZ) 540 (Revised) (for approval)
Agenda item 7.3	Draft Conforming Amendments to ISAs (NZ) and Other Pronouncements (for approval)
Agenda item 7.4	Draft signing memorandum (for approval)

Agenda item 7.2



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 540 (Revised)

Auditing Accounting Estimates and Related Disclosures (ISA (NZ) 540 (Revised))

This Standard was issued on **xx** November 2018 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on **DATE**.

An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods ending on or after 15 December 2018. However, early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued as a result of International Standard on Auditing 540 being revised.

This Standard, when applied, superseded International Standard on Auditing (New Zealand) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

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INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 540 (REVISED)

AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

*Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

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International Standard on Auditing (New Zealand) (ISA (NZ)) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

History of Amendments

Table of pronouncements – ISA (NZ) 540 (Revised) *Auditing Accounting Estimates and Related Disclosures*

This table lists the pronouncements establishing and amending ISA (NZ) 540 (Revised).

Pronouncements	Date approved	Effective date
International Standard on Auditing (New Zealand) 540 (Revised)	October 2018	Effective for audits of financial statements for periods beginning on or after 15 December 2019.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA (NZ) 315 (Revised),¹ ISA (NZ) 330,² ISA (NZ) 450,³ ISA (NZ) 500⁴ and other relevant ISAs (NZ) are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

Nature of Accounting Estimates

2. Accounting estimates vary widely in nature and are required to be made by management when the monetary amounts cannot be directly observed. The measurement of these monetary amounts is subject to estimation uncertainty, which reflects inherent limitations in knowledge or data. These limitations give rise to inherent subjectivity and variation in the measurement outcomes. The process of making accounting estimates involves selecting and applying a method using assumptions and data, which requires judgement by management and can give rise to complexity in measurement. The effects of complexity, subjectivity or other inherent risk factors on the measurement of these monetary amounts affects their susceptibility to misstatement. (Ref: Para. A1–A6, Appendix 1)
3. Although this ISA (NZ) applies to all accounting estimates, the degree to which an accounting estimate is subject to estimation uncertainty will vary substantially. The nature, timing and extent of the risk assessment and further audit procedures required by this ISA (NZ) will vary in relation to the estimation uncertainty and the assessment of the related risks of material misstatement. For certain accounting estimates, estimation uncertainty may be very low, based on their nature, and the complexity and subjectivity involved in making them may also be very low. For such accounting estimates, the risk assessment procedures and further audit procedures required by this ISA (NZ) would not be expected to be extensive. When estimation uncertainty, complexity or subjectivity are very high, such procedures would be expected to be much more extensive. This ISA (NZ) contains guidance on how the requirements of this ISA (NZ) can be scaled. (Ref: Para. A7)

Key Concepts of This ISA (NZ)

4. This ISA (NZ) requires a separate assessment of inherent risk for purposes of assessing the risks of material misstatement at the assertion level for accounting estimates. Depending on the nature of a particular accounting estimate, the susceptibility of an assertion to a misstatement that could be material may be subject to or affected by estimation uncertainty, complexity, subjectivity or other inherent risk factors, and the

¹ ISA (NZ) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

² ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

³ ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*

⁴ ISA (NZ) 500, *Audit Evidence*

interrelationship among them. As explained in ISA (NZ) 200,⁵ inherent risk is higher for some assertions and related classes of transactions, account balances and disclosures than for others. Accordingly, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement, and varies on a scale that is referred to in this ISA (NZ) as the spectrum of inherent risk. (Ref: Para. A8–A9, A65–A66, Appendix 1)

5. This ISA (NZ) refers to relevant requirements in ISA (NZ) 315 (Revised) and ISA (NZ) 330, and provides related guidance, to emphasise the importance of the auditor's decisions about controls relating to accounting estimates, including decisions about whether:
 - There are controls relevant to the audit, for which the auditor is required to evaluate their design and determine whether they have been implemented.
 - To test the operating effectiveness of relevant controls.
6. This ISA (NZ) also requires a separate assessment of control risk when assessing the risks of material misstatement at the assertion level for accounting estimates. In assessing control risk, the auditor takes into account whether the auditor's further audit procedures contemplate planned reliance on the operating effectiveness of controls. If the auditor does not perform tests of controls, the auditor's assessment of the risk of material misstatement at the assertion level cannot be reduced for the effective operation of controls with respect to the particular assertion.⁶ (Ref: Para. A10)
7. This ISA (NZ) emphasises that the auditor's further audit procedures (including, where appropriate, tests of controls) need to be responsive to the reasons for the assessed risks of material misstatement at the assertion level, taking into account the effect of one or more inherent risk factors and the auditor's assessment of control risk.
8. The exercise of professional scepticism in relation to accounting estimates is affected by the auditor's consideration of inherent risk factors, and its importance increases when accounting estimates are subject to a greater degree of estimation uncertainty or are affected to a greater degree by complexity, subjectivity or other inherent risk factors. Similarly, the exercise of professional scepticism is important when there is greater susceptibility to misstatement due to management bias or fraud. (Ref: Para. A11)
9. This ISA (NZ) requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable⁷ in the context of the applicable financial reporting framework, or are misstated. For purposes of this ISA (NZ), reasonable in the context of the applicable financial reporting framework means that the relevant requirements of the applicable financial reporting framework have been applied appropriately, including those that address: (Ref: Para. A12–A13, A139–A144)
 - The making of the accounting estimate, including the selection of the method, assumptions and data in view of the nature of the accounting estimate and the facts and circumstances of the entity;
 - The selection of management's point estimate; and

⁵ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A40

⁶ ISA (NZ) 530, *Audit Sampling*, Appendix 3

⁷ See also ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 13(c)

- The disclosures about the accounting estimate, including disclosures about how the accounting estimate was developed and that explain the nature, extent, and sources of estimation uncertainty.

Effective Date

10. This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 15 December 2019.

NZ10.1 This ISA (NZ) supersedes ISA (NZ) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

Objective

11. The objective of the auditor is to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework.

Definitions

12. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
- Accounting estimate – A monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty. (Ref: Para. A14)
 - Auditor’s point estimate or auditor’s range – An amount, or range of amounts, respectively, developed by the auditor in evaluating management’s point estimate. (Ref: Para. A15)
 - Estimation uncertainty – Susceptibility to an inherent lack of precision in measurement. (Ref: Para. A16, Appendix 1)
 - Management bias – A lack of neutrality by management in the preparation of information. (Ref: Para. A17)
 - Management’s point estimate – The amount selected by management for recognition or disclosure in the financial statements as an accounting estimate.
 - Outcome of an accounting estimate – The actual monetary amount that results from the resolution of the transaction(s), event(s) or condition(s) addressed by an accounting estimate. (Ref: Para. A18)

Requirements

Risk Assessment Procedures and Related Activities

13. When obtaining an understanding of the entity and its environment, including the entity’s internal control, as required by ISA (NZ) 315 (Revised),⁸ the auditor shall obtain an understanding of the following matters related to the entity’s accounting estimates. The auditor’s procedures to obtain the understanding shall be performed to the extent necessary to provide an appropriate basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. (Ref: Para. A19–A22)

⁸ ISA (NZ) 315 (Revised), paragraphs 3, 5–6, 9, 11–12, 15–17, and 20–21

The Entity and Its Environment

- (a) The entity's transactions and other events and conditions that may give rise to the need for, or changes in, accounting estimates to be recognised or disclosed in the financial statements. (Ref: Para. A23)
- (b) The requirements of the applicable financial reporting framework related to accounting estimates (including the recognition criteria, measurement bases, and the related presentation and disclosure requirements); and how they apply in the context of the nature and circumstances of the entity and its environment, including how transactions and other events or conditions are subject to, or affected by, inherent risk factors. (Ref: Para. A24–A25)
- (c) Regulatory factors relevant to the entity's accounting estimates, including, when applicable, regulatory frameworks related to prudential supervision. (Ref: Para. A26)
- (d) The nature of the accounting estimates and related disclosures that the auditor expects to be included in the entity's financial statements, based on the auditor's understanding of the matters in 13(a)–(c) above. (Ref: Para. A27)

The Entity's Internal Control

- (e) The nature and extent of oversight and governance that the entity has in place over management's financial reporting process relevant to accounting estimates. (Ref: Para. A28–A30).
- (f) How management identifies the need for, and applies, specialised skills or knowledge related to accounting estimates, including with respect to the use of a management's expert. (Ref: Para. A31)
- (g) How the entity's risk assessment process identifies and addresses risks relating to accounting estimates. (Ref: Para. A32–A33)
- (h) The entity's information system as it relates to accounting estimates, including:
 - (i) The classes of transactions, events and conditions, that are significant to the financial statements and that give rise to the need for, or changes in, accounting estimates and related disclosures; and (Ref: Para. A34–A35)
 - (ii) For such accounting estimates and related disclosures, how management:
 - a. Identifies the relevant methods, assumptions or sources of data, and the need for changes in them, that are appropriate in the context of the applicable financial reporting framework, including how management: (Ref: Para. A36–A37)
 - i. Selects or designs, and applies, the methods used, including the use of models; (Ref: Para. A38–A39)
 - ii. Selects the assumptions to be used, including consideration of alternatives, and identifies significant assumptions; (Ref: Para. A40–A43); and
 - iii. Selects the data to be used; (Ref: Para. A44)
 - b. Understands the degree of estimation uncertainty, including through considering the range of possible measurement outcomes; and (Ref: Para. A45)

- c. Addresses the estimation uncertainty, including selecting a point estimate and related disclosures for inclusion in the financial statements. (Ref: Para. A46–A49)
 - (i) Control activities relevant to the audit over management’s process for making accounting estimates as described in paragraph 13(h)(ii). (Ref: Para. A50–A54)
 - (j) How management reviews the outcome(s) of previous accounting estimates and responds to the results of that review.
- 14. The auditor shall review the outcome of previous accounting estimates, or, where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement in the current period. The auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The review is not intended to call into question judgements about previous period accounting estimates that were appropriate based on the information available at the time they were made. (Ref: Para. A55–A60)
- 15. With respect to accounting estimates, the auditor shall determine whether the engagement team requires specialised skills or knowledge to perform the risk assessment procedures, to identify and assess the risks of material misstatement, to design and perform audit procedures to respond to those risks, or to evaluate the audit evidence obtained. (Ref: Para. A61–A63)

Identifying and Assessing the Risks of Material Misstatement

- 16. In identifying and assessing the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level, as required by ISA (NZ) 315 (Revised),⁹ the auditor shall separately assess inherent risk and control risk. The auditor shall take the following into account in identifying the risks of material misstatement and in assessing inherent risk: (Ref: Para. A64–A71)
 - (a) The degree to which the accounting estimate is subject to estimation uncertainty; and (Ref: Para. A72–A75)
 - (b) The degree to which the following are affected by complexity, subjectivity, or other inherent risk factors: (Ref: Para. A76–A79)
 - (i) The selection and application of the method, assumptions and data in making the accounting estimate; or
 - (ii) The selection of management’s point estimate and related disclosures for inclusion in the financial statements.
- 17. The auditor shall determine whether any of the risks of material misstatement identified and assessed in accordance with paragraph 16 are, in the auditor’s judgement, a significant risk.¹⁰ If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity’s controls, including control activities, relevant to that risk.¹¹ (Ref: Para. A80)

⁹ ISA (NZ) 315 (Revised), paragraph 25 and 26

¹⁰ ISA (NZ) 315 (Revised), paragraph 27

¹¹ ISA (NZ) 315 (Revised), paragraph 29

Responses to the Assessed Risks of Material Misstatement

18. As required by ISA (NZ) 330,¹² the auditor's further audit procedures shall be responsive to the assessed risks of material misstatement at the assertion level,¹³ considering the reasons for the assessment given to those risks. The auditor's further audit procedures shall include one or more of the following approaches:

- (a) Obtaining audit evidence from events occurring up to the date of the auditor's report (see paragraph 21);
- (b) Testing how management made the accounting estimate (see paragraphs 22–27); or
- (c) Developing an auditor's point estimate or range (see paragraphs 28–29).

The auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be.¹⁴ The auditor shall design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A81–A84)

19. As required by ISA (NZ) 330,¹⁵ the auditor shall design and perform tests to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls, if:

- (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively, or
- (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

In relation to accounting estimates, the auditor's tests of such controls shall be responsive to the reasons for the assessment given to the risks of material misstatement. In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.¹⁶ (Ref: Para. A85–A89)

20. For a significant risk relating to an accounting estimate, the auditor's further audit procedures shall include tests of controls in the current period if the auditor plans to rely on those controls. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.¹⁷ (Ref: Para. A90)

Obtaining Audit Evidence from Events Occurring up to the Date of the Auditor's Report

21. When the auditor's further audit procedures include obtaining audit evidence from events occurring up to the date of the auditor's report, the auditor shall evaluate whether such audit evidence is sufficient and appropriate to address the risks of material misstatement relating to the accounting estimate, taking into account that changes in circumstances and other relevant conditions between the event and the measurement date may affect the relevance of such audit evidence in the context of the applicable financial reporting framework. (Ref: Para. A91–A93)

¹² ISA (NZ) 330, paragraphs 6–15 and 18

¹³ ISA (NZ) 330, paragraphs 6–7 and 21

¹⁴ ISA (NZ) 330, paragraph 7(b)

¹⁵ ISA (NZ) 330, paragraph 8

¹⁶ ISA (NZ) 330, paragraph 9

¹⁷ ISA (NZ) 330, paragraphs 15 and 21

Testing How Management Made the Accounting Estimate

22. When testing how management made the accounting estimate, the auditor's further audit procedures shall include procedures, designed and performed in accordance with paragraphs 23–26, to obtain sufficient appropriate audit evidence regarding the risks of material misstatement relating to: (Ref: Para. A94)
- (a) The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and
 - (b) How management selected the point estimate and developed related disclosures about estimation uncertainty.

Methods

23. In applying the requirements of paragraph 22, with respect to methods, the auditor's further audit procedures shall address:
- (a) Whether the method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; (Ref: Para. A95, A97)
 - (b) Whether judgements made in selecting the method give rise to indicators of possible management bias; (Ref: Para. A96)
 - (c) Whether the calculations are applied in accordance with the method and are mathematically accurate;
 - (d) When management's application of the method involves complex modelling, whether judgements have been applied consistently and whether, when applicable: (Ref: Para. A98–A100)
 - (i) The design of the model meets the measurement objective of the applicable financial reporting framework, is appropriate in the circumstances, and, if applicable, changes from the prior period's model are appropriate in the circumstances; and
 - (ii) Adjustments to the output of the model are consistent with the measurement objective of the applicable financial reporting framework and are appropriate in the circumstances; and
 - (e) Whether the integrity of the significant assumptions and the data has been maintained in applying the method. (Ref: Para. A101)

Significant Assumptions

24. In applying the requirements of paragraph 22, with respect to significant assumptions, the auditor's further audit procedures shall address:
- (a) Whether the significant assumptions are appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; (Ref: Para. A95, A102–A103)
 - (b) Whether judgements made in selecting the significant assumptions give rise to indicators of possible management bias; (Ref: Para. A96)
 - (c) Whether the significant assumptions are consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas

of the entity's business activities, based on the auditor's knowledge obtained in the audit; and (Ref: Para. A104)

- (d) When applicable, whether management has the intent to carry out specific courses of action and has the ability to do so. (Ref: Para. A105)

Data

25. In applying the requirements of paragraph 22, with respect to data, the auditor's further audit procedures shall address:
 - (a) Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate (Ref: Para. A95, A106);
 - (b) Whether judgements made in selecting the data give rise to indicators of possible management bias; (Ref: Para. A96)
 - (c) Whether the data is relevant and reliable in the circumstances; and (Ref: Para. A107)
 - (d) Whether the data has been appropriately understood or interpreted by management, including with respect to contractual terms. (Ref: Para. A108)

Management's Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty

26. In applying the requirements of paragraph 22, the auditor's further audit procedures shall address whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to:
 - (a) Understand estimation uncertainty; and (Ref: Para. A109)
 - (b) Address estimation uncertainty by selecting an appropriate point estimate and by developing related disclosures about estimation uncertainty. (Ref: Para. A110–A114)
27. When, in the auditor's judgement based on the audit evidence obtained, management has not taken appropriate steps to understand or address estimation uncertainty, the auditor shall: (Ref: Para. A115–A117)
 - (a) Request management to perform additional procedures to understand estimation uncertainty or to address it by reconsidering the selection of management's point estimate or considering providing additional disclosures relating to the estimation uncertainty, and evaluate management's response(s) in accordance with paragraph 26;
 - (b) If the auditor determines that management's response to the auditor's request does not sufficiently address estimation uncertainty, to the extent practicable, develop an auditor's point estimate or range in accordance with paragraphs 28–29; and
 - (c) Evaluate whether a deficiency in internal control exists and, if so, communicate in accordance with ISA (NZ) 265.¹⁸

¹⁸ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Developing an Auditor's Point Estimate or Range

28. When the auditor develops a point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, including when required by paragraph 27(b), the auditor's further audit procedures shall include procedures to evaluate whether the methods, assumptions or data used are appropriate in the context of the applicable financial reporting framework. Regardless of whether the auditor uses management's or the auditor's own methods, assumptions or data, these further audit procedures shall be designed and performed to address the matters in paragraphs 23–25. (Ref: Para. A118–A123)
29. If the auditor develops an auditor's range, the auditor shall:
- (a) Determine that the range includes only amounts that are supported by sufficient appropriate audit evidence and have been evaluated by the auditor to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework; and (Ref: Para. A124–A125)
 - (b) Design and perform further audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement relating to the disclosures in the financial statements that describe the estimation uncertainty.

Other Considerations Relating to Audit Evidence

30. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor shall comply with the relevant requirements in ISA (NZ) 500.

When using the work of a management's expert, the requirements in paragraphs 21–29 of this ISA (NZ) may assist the auditor in evaluating the appropriateness of the expert's work as audit evidence for a relevant assertion in accordance with paragraph 8(c) of ISA (NZ) 500. In evaluating the work of the management's expert, the nature, timing and extent of the further audit procedures are affected by the auditor's evaluation of the expert's competence, capabilities and objectivity, the auditor's understanding of the nature of the work performed by the expert, and the auditor's familiarity with the expert's field of expertise. (Ref: Para. A126–A132)

Disclosures Related to Accounting Estimates

31. The auditor shall design and perform further audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level for disclosures related to an accounting estimate, other than those related to estimation uncertainty addressed in paragraphs 26(b) and 29(b).

Indicators of Possible Management Bias

32. The auditor shall evaluate whether judgements and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. Where there is intention to mislead, management bias is fraudulent in nature. (Ref: Para. A133–A136)

Overall Evaluation Based on Audit Procedures Performed

33. In applying ISA (NZ) 330 to accounting estimates,¹⁹ the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)
- (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;
 - (b) Management’s decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and
 - (c) Sufficient appropriate audit evidence has been obtained.
34. In making the evaluation required by paragraph 33(c), the auditor shall take into account all relevant audit evidence obtained, whether corroborative or contradictory.²⁰ If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor’s opinion on the financial statements in accordance with ISA (NZ) 705 (Revised).²¹

Determining Whether the Accounting Estimates are Reasonable or Misstated

35. The auditor shall determine whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated. ISA (NZ) 450²² provides guidance on how the auditor may distinguish misstatements (whether factual, judgemental, or projected) for the auditor’s evaluation of the effect of uncorrected misstatements on the financial statements. (Ref: Para. A12–A13, A139–A144)
36. In relation to accounting estimates, the auditor shall evaluate:
- (a) In the case of a fair presentation framework, whether management has included disclosures, beyond those specifically required by the framework, that are necessary to achieve the fair presentation of the financial statements as a whole;²³ or
 - (b) In the case of a compliance framework, whether the disclosures are those that are necessary for the financial statements not to be misleading.²⁴

Written Representations

37. The auditor shall request written representations from management²⁵ and, when appropriate, those charged with governance about whether the methods, significant assumptions and the data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework. The auditor shall also

¹⁹ ISA (NZ) 330, paragraphs 25–26

²⁰ ISA (NZ) 500, paragraph 11

²¹ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

²² ISA (NZ) 450, paragraph A6

²³ See also ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 14

²⁴ See also ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 19

²⁵ ISA (NZ) 580, *Written Representations*

consider the need to obtain representations about specific accounting estimates, including in relation to the methods, assumptions, or data used. (Ref: Para. A145)

Communication with Those Charged With Governance, Management, or Other Relevant Parties

38. In applying ISA (NZ) 260 (Revised)²⁶ and ISA (NZ) 265,²⁷ the auditor is required to communicate with those charged with governance or management about certain matters, including significant qualitative aspects of the entity's accounting practices and significant deficiencies in internal control, respectively. In doing so, the auditor shall consider the matters, if any, to communicate regarding accounting estimates and take into account whether the reasons given to the risks of material misstatement relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors in making accounting estimates and related disclosures. In addition, in certain circumstances, the auditor is required by law or regulation to communicate about certain matters with other relevant parties, such as regulators or prudential supervisors. (Ref: Para. A146–A148)

Documentation

39. The auditor shall include in the audit documentation:²⁸ (Ref: Para. A149–A152)
- (a) Key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to the entity's accounting estimates;
 - (b) The linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level,²⁹ taking into account the reasons (whether related to inherent risk or control risk) given to the assessment of those risks;
 - (c) The auditor's response(s) when management has not taken appropriate steps to understand and address estimation uncertainty;
 - (d) Indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation of the implications for the audit, as required by paragraph 32; and
 - (e) Significant judgements relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

* * *

Application and Other Explanatory Material

Nature of Accounting Estimates (Ref: Para. 2)

Examples of Accounting Estimates

- A1. Examples of accounting estimates related to classes of transactions, account balances and disclosures include:

²⁶ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16(a)

²⁷ ISA (NZ) 265, paragraph 9

²⁸ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11, A6, NZA7.1 and A10

²⁹ ISA (NZ) 330, paragraph 28(b)

- Inventory obsolescence.
- Depreciation of property and equipment.
- Valuation of infrastructure assets.
- Valuation of financial instruments.
- Outcome of pending litigation.
- Provision for expected credit losses.
- Valuation of insurance contract liabilities.
- Warranty obligations.
- Employee retirement benefits liabilities.
- Share-based payments.
- Fair value of assets or liabilities acquired in a business combination, including the determination of goodwill and intangible assets.
- Impairment of long-lived assets or property or equipment held for disposal.
- Non-monetary exchanges of assets or liabilities between independent parties.
- Revenue recognised for long-term contracts.

Methods

- A2. A method is a measurement technique used by management to make an accounting estimate in accordance with the required measurement basis. For example, one recognised method used to make accounting estimates relating to share-based payment transactions is to determine a theoretical option call price using the Black Scholes option pricing formula. A method is applied using a computational tool or process, sometimes referred to as a model, and involves applying assumptions and data and taking into account a set of relationships between them.

Assumptions and Data

- A3. Assumptions involve judgements based on available information about matters such as the choice of an interest rate, a discount rate, or judgements about future conditions or events. An assumption may be selected by management from a range of appropriate alternatives. Assumptions that may be made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate.
- A4. For purposes of this ISA (NZ), data is information that can be obtained through direct observation or from a party external to the entity. Information obtained by applying analytical or interpretive techniques to data is referred to as derived data when such techniques have a well-established theoretical basis and therefore less need for management judgement. Otherwise, such information is an assumption.
- A5. Examples of data include:
- Prices agreed in market transactions;
 - Operating times or quantities of output from a production machine;

- Historical prices or other terms included in contracts, such as a contracted interest rate, a payment schedule, and term included in a loan agreement;
- Forward-looking information such as economic or earnings forecasts obtained from an external information source, or
- A future interest rate determined using interpolation techniques from forward interest rates (derived data).

A6. Data can come from a wide range of sources. For example, data can be:

- Generated within the organisation or externally;
- Obtained from a system that is either within or outside the general or subsidiary ledgers;
- Observable in contracts; or
- Observable in legislative or regulatory pronouncements.

Scalability (Ref: Para. 3)

A7. Examples of paragraphs that include guidance on how the requirements of this ISA (NZ) can be scaled include paragraphs A20–A22, A63, A67, and A84.

Key Concepts of This ISA (NZ)

Inherent Risk Factors (Ref: Para. 4)

A8. Inherent risk factors are characteristics of conditions and events that may affect the susceptibility of an assertion to misstatement, before consideration of controls. Appendix 1 further explains the nature of these inherent risk factors, and their inter-relationships, in the context of making accounting estimates and their presentation in the financial statements.

A9. In addition to the inherent risk factors of estimation uncertainty, complexity or subjectivity, other inherent risk factors that the auditor may consider in identifying and assessing the risks of material misstatement may include the extent to which the accounting estimate is subject to, or affected by:

- Change in the nature or circumstances of the relevant financial statement items, or requirements of the applicable financial reporting framework which may give rise to the need for changes in the method, assumptions or data used to make the accounting estimate.
- Susceptibility to misstatement due to management bias or fraud in making the accounting estimate.

Control Risk (Ref: Para. 6)

A10. An important consideration for the auditor in assessing control risk at the assertion level is the effectiveness of the design of the controls that the auditor intends to rely on and the extent to which the controls address the assessed inherent risks at the assertion level. The auditor's evaluation that controls are effectively designed and have been implemented supports an expectation about the operating effectiveness of the controls in determining whether to test them.

Professional Scepticism (Ref: Para. 8)

A11. Paragraphs A60, A95, A96, A137 and A139 are examples of paragraphs that describe ways in which the auditor can exercise professional scepticism. Paragraph A152 provides guidance on ways in which the auditor's exercise of professional scepticism may be documented, and includes examples of specific paragraphs in this ISA for which documentation may provide evidence of the exercise of professional scepticism.

Concept of "Reasonable" (Ref: Para. 9, 35)

A12. Other considerations that may be relevant to the auditor's consideration of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework include whether:

- The data and assumptions used in making the accounting estimate are consistent with each other and with those used in other accounting estimates or areas of the entity's business activities; and
- The accounting estimate takes into account appropriate information as required by the applicable financial reporting framework.

A13. The term "applied appropriately" as used in paragraph 9 means in a manner that not only complies with the requirements of the applicable financial reporting framework but, in doing so, reflects judgements that are consistent with the objective of the measurement basis in that framework.

Definitions*Accounting Estimate (Ref: Para. 12(a))*

A14. Accounting estimates are monetary amounts that may be related to classes of transactions or account balances recognised or disclosed in the financial statements. Accounting estimates also include monetary amounts included in disclosures or used to make judgements about recognition or disclosure relating to a class of transactions or account balance.

Auditor's Point Estimate or Auditor's Range (Ref: Para. 12(b))

A15. An auditor's point estimate or range may be used to evaluate an accounting estimate directly (for example, an impairment provision or the fair value of different types of financial instruments), or indirectly (for example, an amount to be used as a significant assumption for an accounting estimate). A similar approach may be taken by the auditor in developing an amount or range of amounts in evaluating a non-monetary item of data or an assumption (for example, an estimated useful life of an asset).

Estimation Uncertainty (Ref: Para. 12(c))

A16. Not all accounting estimates are subject to a high degree of estimation uncertainty. For example, some financial statement items may have an active and open market that provides readily available and reliable information on the prices at which actual exchanges occur. However, estimation uncertainty may exist even when the valuation method and data are well defined. For example, valuation of securities quoted on an active and open market at the listed market price may require adjustment if the holding is significant or is subject to restrictions in marketability. In addition, general economic circumstances prevailing at the time, for example, illiquidity in a particular market, may impact estimation uncertainty.

Management Bias (Ref: Para. 12(d))

A17. Financial reporting frameworks often call for neutrality, that is, freedom from bias. Estimation uncertainty gives rise to subjectivity in making an accounting estimate. The presence of subjectivity gives rise to the need for judgement by management and the susceptibility to unintentional or intentional management bias (for example, as a result of motivation to achieve a desired profit target or capital ratio). The susceptibility of an accounting estimate to management bias increases with the extent to which there is subjectivity in making the accounting estimate.

Outcome of an Accounting Estimate (Ref: Para. 12(f))

A18. Some accounting estimates, by their nature, do not have an outcome that is relevant for the auditor's work performed in accordance with this ISA (NZ). For example, an accounting estimate may be based on perceptions of market participants at a point in time. Accordingly, the price realised when an asset is sold or a liability is transferred may differ from the related accounting estimate made at the reporting date because, with the passage of time, the market participants' perceptions of value have changed.

Risk Assessment Procedures and Related Activities*Obtaining an Understanding of the Entity and Its Environment (Ref: Para. 13)*

A19. Paragraphs 11–24 of ISA (NZ) 315 (Revised) require the auditor to obtain an understanding of certain matters about the entity and its environment, including the entity's internal control. The requirements in paragraph 13 of this ISA (NZ) relate more specifically to accounting estimates and build on the broader requirements in ISA (NZ) 315 (Revised).

Scalability

A20. The nature, timing, and extent of the auditor's procedures to obtain the understanding of the entity and its environment, including the entity's internal control, related to the entity's accounting estimates, may depend, to a greater or lesser degree, on the extent to which the individual matter(s) apply in the circumstances. For example, the entity may have few transactions or other events and conditions that give rise to the need for accounting estimates, the applicable financial reporting requirements may be simple to apply, and there may be no relevant regulatory factors. Further, the accounting estimates may not require significant judgements, and the process for making the accounting estimates may be less complex. In these circumstances, the accounting estimates may be subject to or affected by estimation uncertainty, complexity, subjectivity, or other inherent risk factors to a lesser degree and there may be fewer controls relevant to the audit. If so, the auditor's risk assessment procedures are likely to be less extensive and may be obtained primarily through enquiries of management with appropriate responsibilities for the financial statements and simple walk-throughs of management's process for making the accounting estimate.

A21. By contrast, the accounting estimates may require significant judgements by management, and the process for making the accounting estimates may be complex and involve the use of complex models. In addition, the entity may have a more sophisticated information system, and more extensive controls over accounting estimates. In these circumstances, the accounting estimates may be subject to or affected by estimation uncertainty, subjectivity, complexity or other inherent risk factors to a greater degree. If

so, the nature or timing of the auditor's risk assessment procedures are likely to be different, or be more extensive, than in the circumstances in paragraph A20.

A22. The following considerations may be relevant for entities with only simple businesses, which may include many smaller entities:

- Processes relevant to accounting estimates may be uncomplicated because the business activities are simple or the required estimates may have a lesser degree of estimation uncertainty.
- Accounting estimates may be generated outside of the general and subsidiary ledgers, controls over their development may be limited, and an owner-manager may have significant influence over their determination. The owner-manager's role in making the accounting estimates may need to be taken into account by the auditor both when identifying the risks of material misstatement and when considering the risk of management bias.

The Entity and Its Environment

The entity's transactions and other events and conditions (Ref: Para. 13(a))

A23. Changes in circumstances that may give rise to the need for, or changes in, accounting estimates may include, for example, whether:

- The entity has engaged in new types of transactions;
- Terms of transactions have changed; or
- New events or conditions have occurred.

The requirements of the applicable financial reporting framework (Ref: Para. 13(b))

A24. Obtaining an understanding of the requirements of the applicable financial reporting framework provides the auditor with a basis for discussion with management and, where applicable, those charged with governance about how management has applied those requirements relevant to the accounting estimates, and about the auditor's determination of whether they have been applied appropriately. This understanding also may assist the auditor in communicating with those charged with governance when the auditor considers a significant accounting practice that is acceptable under the applicable financial reporting framework, not to be the most appropriate in the circumstances of the entity.³⁰

A25. In obtaining this understanding, the auditor may seek to understand whether:

- The applicable financial reporting framework:
 - Prescribes certain criteria for the recognition, or methods for the measurement of accounting estimates;
 - Specifies certain criteria that permit or require measurement at a fair value, for example, by referring to management's intentions to carry out certain courses of action with respect to an asset or liability; or
 - Specifies required or suggested disclosures, including disclosures concerning judgements, assumptions, or other sources of estimation uncertainty relating to accounting estimates; and

³⁰ ISA (NZ) 260 (Revised), paragraph 16(a)

- Changes in the applicable financial reporting framework require changes to the entity's accounting policies relating to accounting estimates.

Regulatory factors (Ref: Para. 13(c))

A26. Obtaining an understanding of regulatory factors, if any, that are relevant to accounting estimates may assist the auditor in identifying applicable regulatory frameworks (for example, regulatory frameworks established by prudential supervisors in the banking or insurance industries) and in determining whether such regulatory framework(s):

- Addresses conditions for the recognition, or methods for the measurement, of accounting estimates, or provides related guidance thereon;
- Specifies, or provides guidance about, disclosures in addition to the requirements of the applicable financial reporting framework;
- Provides an indication of areas for which there may be a potential for management bias to meet regulatory requirements; or
- Contains requirements for regulatory purposes that are not consistent with requirements of the applicable financial reporting framework, which may indicate potential risks of material misstatement. For example, some regulators may seek to influence minimum levels for expected credit loss provisions that exceed those required by the applicable financial reporting framework.

The nature of the accounting estimates and related disclosures that the auditor expects to be included in the financial statements (Ref: Para. 13(d))

A27. Obtaining an understanding of the nature of accounting estimates and related disclosures that the auditor expects to be included in the entity's financial statements assists the auditor in understanding the measurement basis of such accounting estimates and the nature and extent of disclosures that may be relevant. Such an understanding provides the auditor with a basis for discussion with management about how management makes the accounting estimates.

The Entity's Internal Control Relevant to the Audit

The nature and extent of oversight and governance (Ref: Para. 13(e))

A28. In applying ISA (NZ) 315 (Revised),³¹ the auditor's understanding of the nature and extent of oversight and governance that the entity has in place over management's process for making accounting estimates may be important to the auditor's required evaluation as it relates to whether:

- Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour; and
- The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control and whether those other components are undermined by deficiencies in the control environment.

A29. The auditor may obtain an understanding of whether those charged with governance:

- Have the skills or knowledge to understand the characteristics of a particular method or model to make accounting estimates, or the risks related to the

³¹ ISA (NZ) 315 (Revised), paragraph 14

accounting estimate, for example, risks related to the method or information technology used in making the accounting estimates;

- Have the skills and knowledge to understand whether management made the accounting estimates in accordance with the applicable financial reporting framework;
- Are independent from management, have the information required to evaluate on a timely basis how management made the accounting estimates, and the authority to call into question management's actions when those actions appear to be inadequate or inappropriate;
- Oversee management's process for making the accounting estimates, including the use of models; or
- Oversee the monitoring activities undertaken by management. This may include supervision and review procedures designed to detect and correct any deficiencies in the design or operating effectiveness of controls over the accounting estimates.

A30. Obtaining an understanding of the oversight by those charged with governance may be important when there are accounting estimates that:

- Require significant judgement by management to address subjectivity;
- Have high estimation uncertainty;
- Are complex to make, for example, because of the extensive use of information technology, large volumes of data or the use of multiple data sources or assumptions with complex-interrelationships;
- Had, or ought to have had, a change in the method, assumptions or data compared to previous periods; or
- Involve significant assumptions.

Management's application of specialised skills or knowledge, including the use of management's experts (Ref: Para. 13(f))

A31. The auditor may consider whether the following circumstances increase the likelihood that management needs to engage an expert:³²

- The specialised nature of the matter requiring estimation, for example, the accounting estimate may involve measurement of mineral or hydrocarbon reserves in extractive industries or the evaluation of the likely outcome of applying complex contractual terms.
- The complex nature of the models required to apply the relevant requirements of the applicable financial reporting framework, as may be the case in certain measurements, such as level 3 fair values.³³
- The unusual or infrequent nature of the condition, transaction or event requiring an accounting estimate.

³² ISA 500, paragraph 8

³³ See, for example, New Zealand Equivalent to International Financial Reporting Standard (NZ IFRS) 13 *Fair Value Measurement*.

The entity's risk assessment process (Ref: Para. 13(g))

A32. Understanding how the entity's risk assessment process identifies and addresses risks relating to accounting estimates may assist the auditor in considering changes in:

- The requirements of the applicable financial reporting framework related to the accounting estimates;
- The availability or nature of data sources that are relevant to making the accounting estimates or that may affect the reliability of the data used;
- The entity's information system or IT environment; and
- Key personnel.

A33. Matters that the auditor may consider in obtaining an understanding of how management identified and addresses the susceptibility to misstatement due to management bias or fraud in making accounting estimates, include whether, and if so how, management:

- Pays particular attention to selecting or applying the methods, assumptions and data used in making accounting estimates.
- Monitors key performance indicators that may indicate unexpected or inconsistent performance compared with historical or budgeted performance or with other known factors.
- Identifies financial or other incentives that may be a motivation for bias.
- Monitors the need for changes in the methods, significant assumptions or the data used in making accounting estimates.
- Establishes appropriate oversight and review of models used in making accounting estimates.
- Requires documentation of the rationale for, or an independent review of, significant judgements made in making accounting estimates.

The entity's information system relating to accounting estimates (Ref: Para. 13(h)(i))

A34. The classes of transactions, events and conditions within the scope of paragraph 13(h) are the same as the classes of transactions, events and conditions relating to accounting estimates and related disclosures that are subject to paragraphs 18(a) and (d) of ISA (NZ) 315 (Revised). In obtaining the understanding of the entity's information system as it relates to accounting estimates, the auditor may consider:

- Whether the accounting estimates arise from the recording of routine and recurring transactions or whether they arise from non-recurring or unusual transactions.
- How the information system addresses the completeness of accounting estimates and related disclosures, in particular for accounting estimates related to liabilities.

A35. During the audit, the auditor may identify classes of transactions, events and conditions that give rise to the need for accounting estimates and related disclosures that management failed to identify. ISA (NZ) 315 (Revised) deals with circumstances where the auditor identifies risks of material misstatement that management failed to identify, including determining whether there is a significant deficiency in internal control with regard to the entity's risk assessment process.³⁴

³¹ ISA (NZ) 315 (Revised), paragraph 17

Management's Identification of the Relevant Methods, Assumptions and Sources of Data (Ref:

Para. 13(h)(ii)(a)

- A36. If management has changed the method for making an accounting estimate, considerations may include whether the new method is, for example, more appropriate, is itself a response to changes in the environment or circumstances affecting the entity, or to changes in the requirements of the applicable financial reporting framework or regulatory environment, or whether management has another valid reason.
- A37. If management has not changed the method for making an accounting estimate, considerations may include whether the continued use of the previous methods, assumptions and data is appropriate in view of the current environment or circumstances.

Methods (Ref: Para. 13(h)(ii)(a)(i))

- A38. The applicable financial reporting framework may prescribe the method to be used in making an accounting estimate. In many cases, however, the applicable financial reporting framework does not prescribe a single method, or the required measurement basis prescribes, or allows, the use of alternative methods.

Models

- A39. Management may design and implement specific controls around models used for making accounting estimates, whether management's own model or an external model. When the model itself has an increased level of complexity or subjectivity, such as an expected credit loss model or a fair value model using level 3 inputs, controls that address such complexity or subjectivity may be more likely to be identified as relevant to the audit. When complexity in relation to models is present, controls over data integrity are also more likely to be relevant to the audit. Factors that may be appropriate for the auditor to consider in obtaining an understanding of the model and of control activities relevant to the audit include the following:

- How management determines the relevance and accuracy of the model;
- The validation or back testing of the model, including whether the model is validated prior to use and revalidated at regular intervals to determine whether it remains suitable for its intended use. The entity's validation of the model may include evaluation of:
 - The model's theoretical soundness;
 - The model's mathematical integrity; and
 - The accuracy and completeness of the data and the appropriateness of data and assumptions used in the model.
- How the model is appropriately changed or adjusted on a timely basis for changes in market or other conditions and whether there are appropriate change control policies over the model;
- Whether adjustments, also referred to as overlays in certain industries, are made to the output of the model and whether such adjustments are appropriate in the circumstances in accordance with the requirements of the applicable financial reporting framework. When the adjustments are not appropriate, such adjustments may be indicators of possible management bias; and
- Whether the model is adequately documented, including its intended applications, limitations, key parameters, required data and assumptions, the results of any

validation performed on it and the nature of, and basis for, any adjustments made to its output.

Assumptions (Ref: Para. 13(h)(ii)(a)(ii))

A40. Matters that the auditor may consider in obtaining an understanding of how management selected the assumptions used in making the accounting estimates include, for example:

- The basis for management's selection and the documentation supporting the selection of the assumption. The applicable financial reporting framework may provide criteria or guidance to be used in the selection of an assumption.
- How management assesses whether the assumptions are relevant and complete.
- When applicable, how management determines that the assumptions are consistent with each other, with those used in other accounting estimates or areas of the entity's business activities, or with other matters that are:
 - Within the control of management (for example, assumptions about the maintenance programs that may affect the estimation of an asset's useful life), and whether they are consistent with the entity's business plans and the external environment; and
 - Outside the control of management (for example, assumptions about interest rates, mortality rates or potential judicial or regulatory actions).
- The requirements of the applicable financial reporting framework related to the disclosure of assumptions.

A41. With respect to fair value accounting estimates, assumptions vary in terms of the sources of the data and the basis for the judgements to support them, as follows:

- (a) Those that reflect what marketplace participants would use in pricing an asset or liability, developed based on market data obtained from sources independent of the reporting entity.
- (b) Those that reflect the entity's own judgements about what assumptions marketplace participants would use in pricing the asset or liability, developed based on the best data available in the circumstances.

In practice, however, the distinction between (a) and (b) may not always be apparent and distinguishing between them depends on understanding the sources of data and the basis for the judgements that support the assumption. Further, it may be necessary for management to select from a number of different assumptions used by different marketplace participants.

A42. Assumptions used in making an accounting estimate are referred to as significant assumptions in this ISA (NZ) if a reasonable variation in the assumption would materially affect the measurement of the accounting estimate. A sensitivity analysis may be useful in demonstrating the degree to which the measurement varies based on one or more assumptions used in making the accounting estimate.

Inactive or illiquid markets

A43. When markets are inactive or illiquid, the auditor's understanding of how management selects assumptions may include understanding whether management has:

- Implemented appropriate policies for adapting the application of the method in such circumstances. Such adaptation may include making model adjustments or developing new models that are appropriate in the circumstances;
- Resources with the necessary skills or knowledge to adapt or develop a model, if necessary on an urgent basis, including selecting the valuation technique that is appropriate in such circumstances;
- The resources to determine the range of outcomes, given the uncertainties involved, for example by performing a sensitivity analysis;
- The means to assess how, when applicable, the deterioration in market conditions has affected the entity's operations, environment and relevant business risks and the implications for the entity's accounting estimates, in such circumstances; and
- An appropriate understanding of how the price data, and the relevance thereof, from particular external information sources may vary in such circumstances.

Data (Ref: Para. 13(h)(ii)(a)(iii))

A44. Matters that the auditor may consider in obtaining an understanding of how management selects the data on which the accounting estimates are based include:

- The nature and source of the data, including information obtained from an external information source.
- How management evaluates whether the data is appropriate.
- The accuracy and completeness of the data.
- The consistency of the data used with data used in previous periods.
- The complexity of the information technology systems used to obtain and process the data, including when this involves handling large volumes of data.
- How the data is obtained, transmitted and processed and how its integrity is maintained.

How management understands and addresses estimation uncertainty (Ref: Para. 13(h)(ii)(b)–13(h)(ii)(c))

A45. Matters that may be appropriate for the auditor to consider relating to whether and how management understands the degree of estimation uncertainty include, for example:

- Whether, and if so, how management identified alternative methods, significant assumptions or sources of data that are appropriate in the context of the applicable financial reporting framework.
- Whether, and if so, how management considered alternative outcomes by, for example, performing a sensitivity analysis to determine the effect of changes in the significant assumptions or the data used in making the accounting estimate.

A46. The requirements of the applicable financial reporting framework may specify the approach to selecting management's point estimate from the reasonably possible measurement outcomes. Financial reporting frameworks may recognise that the appropriate amount is one that is appropriately selected from the reasonably possible measurement outcomes and, in some cases, may indicate that the most relevant amount may be in the central part of that range.

A47. For example, with respect to fair value estimates, NZ IFRS³⁵ indicates that, if multiple valuation techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances. In other cases, the applicable financial reporting framework may specify the use of a probability-weighted average of the reasonably possible measurement outcomes, or of the measurement amount that is most likely or that is more likely than not.

A48. The applicable financial reporting framework may prescribe disclosures or disclosure objectives related to accounting estimates, and some entities may choose to disclose additional information. These disclosures or disclosure objectives may address, for example:

- The method of estimation used, including any applicable model and the basis for its selection.
- Information that has been obtained from models, or from other calculations used to determine estimates recognised or disclosed in the financial statements, including information relating to the underlying data and assumptions used in those models, such as:
 - Assumptions developed internally; or
 - Data, such as interest rates, that are affected by factors outside the control of the entity.
- The effect of any changes to the method of estimation from the prior period.
- The sources of estimation uncertainty.
- Fair value information.
- Information about sensitivity analyses derived from financial models that demonstrates that management has considered alternative assumptions.

A49. In some cases, the applicable financial reporting framework may require specific disclosures regarding estimation uncertainty, for example:

- The disclosure of information about the assumptions made about the future and other major sources of estimation uncertainty that give rise to a higher likelihood or magnitude of material adjustment to the carrying amounts of assets and liabilities after the period end. Such requirements may be described using terms such as “Key Sources of Estimation Uncertainty” or “Critical Accounting Estimates.” They may relate to accounting estimates that require management’s most difficult, subjective or complex judgements. Such judgements may be more subjective and complex, and accordingly the potential for a consequential material adjustment to the carrying amounts of assets and liabilities may increase, with the number of items of data and assumptions affecting the possible future resolution of the estimation uncertainty. Information that may be disclosed includes:
 - The nature of the assumption or other source of estimation uncertainty;
 - The sensitivity of carrying amounts to the methods and assumptions used, including the reasons for the sensitivity;

³⁵ NZ IFRS 13 *Fair Value Measurement*, paragraph 63

- The expected resolution of an uncertainty and the range of reasonably possible outcomes in respect of the carrying amounts of the assets and liabilities affected; and
- An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.
- The disclosure of the range of possible outcomes, and the assumptions used in determining the range.
- The disclosure of specific information, such as:
 - Information regarding the significance of fair value accounting estimates to the entity's financial position and performance; and
 - Disclosures regarding market inactivity or illiquidity.
- Qualitative disclosures such as the exposures to risk and how they arise, the entity's objectives, policies and procedures for managing the risk and the methods used to measure the risk and any changes from the previous period of these qualitative concepts.
- Quantitative disclosures such as the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel, including credit risk, liquidity risk and market risk.

Control Activities Relevant to the Audit Over Management's Process for Making Accounting Estimates (Ref: Para 13(i))

A50. The auditor's judgement in identifying controls relevant to the audit, and therefore the need to evaluate the design of those controls and determine whether they have been implemented, relates to management's process described in paragraph 13(h)(ii). The auditor may not identify relevant control activities in relation to all the elements of paragraph 13(h)(ii), depending on the complexity associated with the accounting estimate.

A51. As part of obtaining an understanding of the control activities relevant to the audit, the auditor may consider:

- How management determines the appropriateness of the data used to develop the accounting estimates, including when management uses an external information source or data from outside the general and subsidiary ledgers.
- The review and approval of accounting estimates, including the assumptions or data used in their development, by appropriate levels of management and, where appropriate, those charged with governance.
- The segregation of duties between those responsible for making the accounting estimates and those committing the entity to the related transactions, including whether the assignment of responsibilities appropriately takes account of the nature of the entity and its products or services. For example, in the case of a large financial institution, relevant segregation of duties may consist of an independent function responsible for estimation and validation of fair value pricing of the entity's financial products staffed by individuals whose remuneration is not tied to such products.

- The effectiveness of the design of the control activities. Generally, it may be more difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements, than it is to design controls that address complexity. Controls that address subjectivity and estimation uncertainty may need to include more manual elements, which may be less reliable than automated controls as they can be more easily bypassed, ignored or overridden by management. The design effectiveness of controls addressing complexity may vary depending on the reason for, and the nature of, the complexity. For example, it may be easier to design more effective controls related to a method that is routinely used or over the integrity of data.

A52. When management makes extensive use of information technology in making an accounting estimate, controls relevant to the audit are likely to include general IT controls and application controls. Such controls may address risks related to:

- Whether the information technology system has the capability and is appropriately configured to process large volumes of data;
- Complex calculations in applying a method. When diverse systems are required to process complex transactions, regular reconciliations between the systems are made, in particular when the systems do not have automated interfaces or may be subject to manual intervention;
- Whether the design and calibration of models is periodically evaluated;
- The complete and accurate extraction of data regarding accounting estimates from the entity's records or from external information sources;
- Data, including the complete and accurate flow of data through the entity's information system, the appropriateness of any modification to the data used in making accounting estimates, the maintenance of the integrity and security of the data. When using external information sources, risks related to processing or recording the data;
- Whether management has controls around access, change and maintenance of individual models to maintain a strong audit trail of the accredited versions of models and to prevent unauthorised access or amendments to those models; and
- Whether there are appropriate controls over the transfer of information relating to accounting estimates into the general ledger, including appropriate controls over journal entries.

A53. In some industries, such as banking or insurance, the term governance may be used to describe activities within the control environment, monitoring of controls, and other components of internal control, as described in ISA (NZ) 315 (Revised).³⁶

A54. For entities with an internal audit function, its work may be particularly helpful to the auditor in obtaining an understanding of:

- The nature and extent of management's use of accounting estimates;
- The design and implementation of control activities that address the risks related to the data, assumptions and models used to make the accounting estimates;

³⁶ ISA (NZ) 315 (Revised) paragraph A77

- The aspects of the entity's information system that generate the data on which the accounting estimates are based; and
- How new risks relating to accounting estimates are identified, assessed and managed.

Reviewing the Outcome or Re-Estimation of Previous Accounting Estimates (Ref: Para. 14)

A55. A review of the outcome or re-estimation of previous accounting estimates (retrospective review) assists in identifying and assessing the risks of material misstatement when previous accounting estimates have an outcome through transfer or realisation of the asset or liability in the current period, or are re-estimated for the purpose of the current period. Through performing a retrospective review, the auditor may obtain:

- Information regarding the effectiveness of management's previous estimation process, from which the auditor can obtain audit evidence about the likely effectiveness of management's current process
- Audit evidence of matters, such as the reasons for changes that may be required to be disclosed in the financial statements.
- Information regarding the complexity or estimation uncertainty pertaining to the accounting estimates.
- Information regarding the susceptibility of accounting estimates to, or that may be an indicator of, possible management bias. The auditor's professional scepticism assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

A56. A retrospective review may provide audit evidence that supports the identification and assessment of the risks of material misstatement in the current period. Such a retrospective review may be performed for accounting estimates made for the prior period's financial statements, or may be performed over several periods or a shorter period (such as half-yearly or quarterly). In some cases, a retrospective review over several periods may be appropriate when the outcome of an accounting estimate is resolved over a longer period.

A57. A retrospective review of management judgements and assumptions related to significant accounting estimates is required by ISA (NZ) 240.³⁷ As a practical matter, the auditor's review of previous accounting estimates as a risk assessment procedure in accordance with this ISA (NZ) may be carried out in conjunction with the review required by ISA (NZ) 240.

A58. Based on the auditor's previous assessment of the risks of material misstatement, for example, if inherent risk is assessed as higher for one or more risks of material misstatement, the auditor may judge that a more detailed retrospective review is required. As part of the detailed retrospective review, the auditor may pay particular attention, when practicable, to the effect of data and significant assumptions used in making the previous accounting estimates. On the other hand, for example, for accounting estimates that arise from the recording of routine and recurring transactions, the auditor may judge that the application of analytical procedures as risk assessment procedures is sufficient for purposes of the review.

³⁷ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 33(b)(ii)

- A59. The measurement objective for fair value accounting estimates and other accounting estimates, based on current conditions at the measurement date, deals with perceptions about value at a point in time, which may change significantly and rapidly as the environment in which the entity operates changes. The auditor may therefore focus the review on obtaining information that may be relevant to identifying and assessing risks of material misstatement. For example, in some cases, obtaining an understanding of changes in marketplace participant assumptions that affected the outcome of a previous period's fair value accounting estimates may be unlikely to provide relevant audit evidence. In this case, audit evidence may be obtained by understanding the outcomes of assumptions (such as a cash flow projections) and understanding the effectiveness of management's prior estimation process that supports the identification and assessment of the risk of material misstatement in the current period.
- A60. A difference between the outcome of an accounting estimate and the amount recognised in the previous period's financial statements does not necessarily represent a misstatement of the previous period's financial statements. However, such a difference may represent a misstatement if, for example, the difference arises from information that was available to management when the previous period's financial statements were finalised, or that could reasonably be expected to have been obtained and taken into account in the context of the applicable financial reporting framework.³⁸ Such a difference may call into question management's process for taking information into account in making the accounting estimate. As a result, the auditor may reassess control risk and may determine that more persuasive audit evidence needs to be obtained about the matter. Many financial reporting frameworks contain guidance on distinguishing between changes in accounting estimates that constitute misstatements and changes that do not, and the accounting treatment required to be followed in each case.

Specialised Skills or Knowledge (Ref: Para. 15)

- A61. Matters that may affect the auditor's determination of whether the engagement team requires specialised skills or knowledge, include, for example:³⁹
- The nature of the accounting estimates for a particular business or industry (for example, mineral deposits, agricultural assets, complex financial instruments, insurance contract liabilities).
 - The degree of estimation uncertainty.
 - The complexity of the method or model used.
 - The complexity of the requirements of the applicable financial reporting framework relevant to accounting estimates, including whether there are areas known to be subject to differing interpretation or practice or areas where there are inconsistencies in how accounting estimates are made.
 - The procedures the auditor intends to undertake in responding to assessed risks of material misstatement.
 - The need for judgement about matters not specified by the applicable financial reporting framework.

³⁸ ISA (NZ) 560, *Subsequent Events*, paragraph 14

³⁹ ISA (NZ) 220, *Quality Control for an Audit of Financial Statements*, paragraph 14 and ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 8(e)

- The degree of judgement needed to select data and assumptions.
- The complexity and extent of the entity's use of information technology in making accounting estimates.

The nature, timing and extent of the involvement of individuals with specialised skills and knowledge may vary throughout the audit.

- A62. The auditor may not possess the specialised skills or knowledge necessary when the matter involved is in a field other than accounting or auditing (for example, valuation skills) and may need to use an auditor's expert.⁴⁰
- A63. Many accounting estimates do not require the application of specialised skills or knowledge. For example, specialised skills or knowledge may not be needed for a simple inventory obsolescence calculation. However, for example, for expected credit losses of a banking institution or an insurance contract liability for an insurance entity, the auditor is likely to conclude that it is necessary to apply specialised skills or knowledge.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 4, 16)

- A64. Identifying and assessing risks of material misstatement at the assertion level relating to accounting estimates is important for all accounting estimates, including not only those that are recognised in the financial statements, but also those that are included in the notes to the financial statements.
- A65. Paragraph A42 of ISA (NZ) 200 states that the ISAs (NZ) do not ordinarily refer to inherent risk and control risk separately. However, this ISA (NZ) requires a separate assessment of inherent risk and control risk to provide a basis for designing and performing further audit procedures to respond to the risks of material misstatement, including significant risks, at the assertion level for accounting estimates in accordance with ISA (NZ) 330.⁴¹
- A66. In identifying the risks of material misstatement and in assessing inherent risk, the auditor is required to take into account the degree to which the accounting estimate is subject to, or affected by, estimation uncertainty, complexity, subjectivity, or other inherent risk factors. The auditor's consideration of the inherent risk factors may also provide information to be used in determining:
- Where inherent risk is assessed on the spectrum of inherent risk; and
 - The reasons for the assessment given to the risks of material misstatement at the assertion level, and that the auditor's further audit procedures in accordance with paragraph 18 are responsive to those reasons.

The interrelationships between the inherent risk factors are further explained in Appendix 1.

- A67. The reasons for the auditor's assessment of inherent risk at the assertion level may result from one or more of the inherent risk factors of estimation uncertainty, complexity, subjectivity or other inherent risk factors. For example:
- (a) Accounting estimates of expected credit losses are likely to be complex because the expected credit losses cannot be directly observed and may require the use of a complex model. The model may use a complex set of historical data and

⁴⁰ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

⁴¹ ISA (NZ) 330, paragraph 7(b)

assumptions about future developments in a variety of entity specific scenarios that may be difficult to predict. Accounting estimates for expected credit losses are also likely to be subject to high estimation uncertainty and significant subjectivity in making judgements about future events or conditions. Similar considerations apply to insurance contract liabilities.

- (b) An accounting estimate for an obsolescence provision for an entity with a wide range of different inventory types may require complex systems and processes, but may involve little subjectivity and the degree of estimation uncertainty may be low, depending on the nature of the inventory.
 - (c) Other accounting estimates may not be complex to make but may have high estimation uncertainty and require significant judgement, for example, an accounting estimate that requires a single critical judgement about a liability, the amount of which is contingent on the outcome of the litigation.
- A68. The relevance and significance of inherent risk factors may vary from one estimate to another. Accordingly, the inherent risk factors may, either individually or in combination, affect simple accounting estimates to a lesser degree and the auditor may identify fewer risks or assess inherent risk at the lower end of the spectrum of inherent risk.
- A69. Conversely, the inherent risk factors may, either individually or in combination, affect complex accounting estimates to a greater degree, and may lead the auditor to assess inherent risk at the higher end of the spectrum of inherent risk. For these accounting estimates, the auditor's consideration of the effects of the inherent risk factors is likely to directly affect the number and nature of identified risks of material misstatement, the assessment of such risks, and ultimately the persuasiveness of the audit evidence needed in responding to the assessed risks. Also, for these accounting estimates the auditor's application of professional scepticism may be particularly important.
- A70. Events occurring after the date of the financial statements may provide additional information relevant to the auditor's assessment of the risks of material misstatement at the assertion level. For example, the outcome of an accounting estimate may become known during the audit. In such cases, the auditor may assess or revise the assessment of the risks of material misstatement at the assertion level,⁴² regardless of the degree to which the accounting estimate was subject to, or affected by estimation uncertainty, complexity, subjectivity or other inherent risk factors. Events occurring after the date of the financial statements also may influence the auditor's selection of the approach to testing the accounting estimate in accordance with paragraph 18. For example, for a simple bonus accrual that is based on a straightforward percentage of compensation for selected employees, the auditor may conclude that there is relatively little complexity or subjectivity in making the accounting estimate, and therefore may assess inherent risk at the assertion level at the lower end of the spectrum of inherent risk. The payment of the bonuses subsequent to period end may provide sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level.
- A71. The auditor's assessment of control risk may be done in different ways depending on preferred audit techniques or methodologies. The control risk assessment may be expressed using qualitative categories (for example, control risk assessed as maximum, moderate, minimum) or in terms of the auditor's expectation of how effective the control(s) is in addressing the identified risk, that is, the planned reliance on the effective

⁴² ISA (NZ) 315 (Revised), paragraph 31

operation of controls. For example, if control risk is assessed as maximum, the auditor contemplates no reliance on the effective operation of controls. If control risk is assessed at less than maximum, the auditor contemplates reliance on the effective operation of controls.

Estimation Uncertainty (Ref: Para. 16(a))

A72. In taking into account the degree to which the accounting estimate is subject to estimation uncertainty, the auditor may consider:

- Whether the applicable financial reporting framework requires:
 - The use of a method to make the accounting estimate that inherently has a high level of estimation uncertainty. For example, the financial reporting framework may require the use of unobservable inputs.
 - The use of assumptions that inherently have a high level of estimation uncertainty, such as assumptions with a long forecast period, assumptions that are based on data that is unobservable and are therefore difficult for management to develop, or the use of various assumptions that are interrelated.
 - Disclosures about estimation uncertainty.
- The business environment. An entity may be active in a market that experiences turmoil or possible disruption (for example, from major currency movements or inactive markets) and the accounting estimate may therefore be dependent on data that is not readily observable.
- Whether it is possible (or practicable, insofar as permitted by the applicable financial reporting framework) for management:
 - To make a precise and reliable prediction about the future realisation of a past transaction (for example, the amount that will be paid under a contingent contractual term), or about the incidence and impact of future events or conditions (for example, the amount of a future credit loss or the amount at which an insurance claim will be settled and the timing of its settlement); or
 - To obtain precise and complete information about a present condition (for example, information about valuation attributes that would reflect the perspective of market participants at the date of the financial statements, to develop a fair value estimate).

A73. The size of the amount recognised or disclosed in the financial statements for an accounting estimate is not, in itself, an indicator of its susceptibility to misstatement because, for example, the accounting estimate may be understated.

A74. In some circumstances, the estimation uncertainty may be so high that a reasonable accounting estimate cannot be made. The applicable financial reporting framework may preclude recognition of an item in the financial statements, or its measurement at fair value. In such cases, there may be risks of material misstatement that relate not only to whether an accounting estimate should be recognised, or whether it should be measured at fair value, but also to the reasonableness of the disclosures. With respect to such accounting estimates, the applicable financial reporting framework may require disclosure of the accounting estimates and the estimation uncertainty associated with them (see paragraphs A112–A113, A143–A144).

A75. In some cases, the estimation uncertainty relating to an accounting estimate may cast significant doubt about the entity's ability to continue as a going concern. ISA (NZ) 570 (Revised)⁴³ establishes requirements and provides guidance in such circumstances.

Complexity or Subjectivity (Ref: Para. 16(b))

The Degree to Which Complexity Affects the Selection and Application of the Method

A76. In taking into account the degree to which the selection and application of the method used in making the accounting estimate are affected by complexity, the auditor may consider:

- The need for specialised skills or knowledge by management which may indicate that the method used to make an accounting estimate is inherently complex and therefore the accounting estimate may have a greater susceptibility to material misstatement. There may be a greater susceptibility to material misstatement when management has developed a model internally and has relatively little experience in doing so, or uses a model that applies a method that is not established or commonly used in a particular industry or environment.
- The nature of the measurement basis required by the applicable financial reporting framework, which may result in the need for a complex method that requires multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them. For example, an expected credit loss provision may require judgements about future credit repayments and other cash flows, based on consideration of historical experience data and the application of forward looking assumptions. Similarly, the valuation of an insurance contract liability may require judgements about future insurance contract payments to be projected based on historical experience and current and assumed future trends.

The Degree to Which Complexity Affects the Selection and Application of the Data

A77. In taking into account the degree to which the selection and application of the data used in making the accounting estimate are affected by complexity, the auditor may consider:

- The complexity of the process to derive the data, taking into account the relevance and reliability of the data source. Data from certain sources may be more reliable than from others. Also, for confidentiality or proprietary reasons, some external information sources will not (or not fully) disclose information that may be relevant in considering the reliability of the data they provide, such as the sources of the underlying data they used or how it was accumulated and processed.
- The inherent complexity in maintaining the integrity of the data. When there is a high volume of data and multiple sources of data, there may be inherent complexity in maintaining the integrity of data that is used to make an accounting estimate.
- The need to interpret complex contractual terms. For example, the determination of cash inflows or outflows arising from a commercial supplier or customer rebates may depend on very complex contractual terms that require specific experience or competence to understand or interpret.

⁴³ ISA (NZ) 570, (Revised), *Going Concern*

The Degree to Which Subjectivity Affects the Selection and Application of the Method, Assumptions or Data

A78. In taking into account the degree to which the selection and application of method, assumptions or data are affected by subjectivity, the auditor may consider:

- The degree to which the applicable financial reporting framework does not specify the valuation approaches, concepts, techniques and factors to use in the estimation method.
- The uncertainty regarding the amount or timing, including the length of the forecast period. The amount and timing is a source of inherent estimation uncertainty, and gives rise to the need for management judgement in selecting a point estimate, which in turn creates an opportunity for management bias. For example, an accounting estimate that incorporates forward looking assumptions may have a high degree of subjectivity which may be susceptible to management bias.

Other Inherent Risk Factors (Ref: Para. 16(b))

A79. The degree of subjectivity associated with an accounting estimate influences the susceptibility of the accounting estimate to misstatement due to management bias or fraud. For example, when an accounting estimate is subject to a high degree of subjectivity, the accounting estimate is likely to be more susceptible to misstatement due to management bias or fraud and this may result in a wide range of possible measurement outcomes. Management may select a point estimate from that range that is inappropriate in the circumstances, or that is inappropriately influenced by unintentional or intentional management bias, and that is therefore misstated. For continuing audits, indicators of possible management bias identified during the audit of preceding periods may influence the planning and risk assessment procedures in the current period.

Significant Risks (Ref: Para. 17)

A80. The auditor's assessment of inherent risk, which takes into account the degree to which an accounting estimate is subject to, or affected by estimation uncertainty, complexity, subjectivity or other inherent risk factors, assists the auditor in determining whether any of the risks of material misstatement identified and assessed are a significant risk.

Responses to the Assessed Risks of Material Misstatement

The Auditor's Further Audit Procedures (Ref: Para. 18)

A81. In designing and performing further audit procedures the auditor may use any of the three testing approaches (individually or in combination) listed in paragraph 18. For example, when several assumptions are used to make an accounting estimate, the auditor may decide to use a different testing approach for each assumption tested.

Obtaining Relevant Audit Evidence Whether Corroborative or Contradictory

A82. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.⁴⁴ Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources

⁴⁴ ISA (NZ) 500, paragraph A5

within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

A83. ISA (NZ) 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of the risk.⁴⁵ Therefore, the consideration of the nature or quantity of the audit evidence may be more important when inherent risks relating to an accounting estimate is assessed at the higher end of the spectrum of inherent risk.

Scalability

A84. The nature, timing and extent of the auditor's further audit procedures are affected by, for example:

- The assessed risks of material misstatement, which affect the persuasiveness of the audit evidence needed and influence the approach the auditor selects to audit an accounting estimate. For example, the assessed risks of material misstatement relating to the existence or valuation assertions may be lower for a straightforward accrual for bonuses that are paid to employees shortly after period end. In this situation, it may be more practical for the auditor to obtain sufficient appropriate audit evidence by evaluating events occurring up to the date of the auditor's report, rather than through other testing approaches.
- The reasons for the assessed risks of material misstatement.

When the Auditor Intends to Rely on the Operating Effectiveness of Relevant Controls (Ref: Para: 19)

A85. Testing the operating effectiveness of relevant controls may be appropriate when inherent risk is assessed as higher on the spectrum of inherent risk, including for significant risks. This may be the case when the accounting estimate is subject to or affected by a high degree of complexity. When the accounting estimate is affected by a high degree of subjectivity, and therefore requires significant judgement by management, inherent limitations in the effectiveness of the design of controls may lead the auditor to focus more on substantive procedures than on testing the operating effectiveness of controls.

A86. In determining the nature, timing and extent of testing of the operating effectiveness of controls relating to accounting estimates, the auditor may consider factors such as:

- The nature, frequency and volume of transactions;
- The effectiveness of the design of the controls, including whether controls are appropriately designed to respond to the assessed inherent risk, and the strength of governance;
- The importance of particular controls to the overall control objectives and processes in place at the entity, including the sophistication of the information system to support transactions;
- The monitoring of controls and identified deficiencies in internal control;
- The nature of the risks the controls are intended to address, for example, controls related to the exercise of judgement compared with controls over supporting data;
- The competency of those involved in the control activities;
- The frequency of performance of the control activities; and

⁴⁵ ISA (NZ) 330, paragraph 7(b), A19

- The evidence of performance of control activities.

Substantive Procedures Alone Cannot Provide Sufficient Appropriate Audit Evidence

A87. In some industries, such as the financial services industry, management makes extensive use of IT to conduct business. It may therefore be more likely that there are risks related to certain accounting estimates for which substantive procedures alone cannot provide sufficient appropriate audit evidence.

A88. Circumstances when risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level may exist include:

- When controls are necessary to mitigate risks relating to the initiation, recording, processing, or reporting of information obtained from outside of the general and subsidiary ledgers.
- Information supporting one or more assertions is electronically initiated, recorded, processed, or reported. This is likely to be the case when there is a high volume of transactions or data, or a complex model is used, requiring the extensive use of information technology to ensure the accuracy and completeness of the information. A complex expected credit loss provision may be required for a financial institution or utility entity. For example, in the case of a utility entity, the data used in developing the expected credit loss provision may comprise many small balances resulting from a high volume of transactions. In these circumstances, the auditor may conclude that sufficient appropriate audit evidence cannot be obtained without testing controls around the model used to develop the expected credit loss provision.

In such cases, the sufficiency and appropriateness of the audit evidence may depend on the effectiveness of controls over the accuracy and completeness of the information.

A89. As part of the audit of the financial statements for certain entities (such as a bank or insurer), the auditor also may be required by law or regulation to undertake additional procedures in relation to, or to provide an assurance conclusion on, internal control. In these and other similar circumstances, the auditor may be able to use information obtained in performing such procedures as audit evidence, subject to determining whether subsequent changes have occurred that may affect its relevance to the audit.

Significant Risks (Ref: Para. 20)

A90. When the auditor's further audit procedures in response to a significant risk consist only of substantive procedures, ISA (NZ) 330⁴⁶ requires that those procedures include tests of details. Such tests of details may be designed and performed under each of the approaches described in paragraph 18 of this ISA (NZ) based on the auditor's professional judgement in the circumstances. Examples of tests of details for significant risks related to accounting estimates include:

- Examination, for example, examining contracts to corroborate terms or assumptions.
- Recalculation, for example, verifying the mathematical accuracy of a model.

⁴⁶ ISA (NZ) 330, paragraph 21

- Agreeing assumptions used to supporting documentation, such as third-party published information.

Obtaining Audit Evidence from Events Occurring up to the Date of the Auditor's Report (Ref: Para. 21)

- A91. In some circumstances, obtaining audit evidence from events occurring up to the date of the auditor's report may provide sufficient appropriate audit evidence to address the risks of material misstatement. For example, sale of the complete inventory of a discontinued product shortly after the period end may provide sufficient appropriate audit evidence relating to the estimate of its net realisable value at the period end. In other cases, it may be necessary to use this testing approach in connection with another approach in paragraph 18.
- A92. For some accounting estimates, events occurring up to the date of the auditor's report are unlikely to provide sufficient appropriate audit evidence regarding the accounting estimate. For example, the conditions or events relating to some accounting estimates develop only over an extended period. Also, because of the measurement objective of fair value accounting estimates, information after the period-end may not reflect the events or conditions existing at the balance sheet date and therefore may not be relevant to the measurement of the fair value accounting estimate.
- A93. Even if the auditor decides not to undertake this testing approach in respect of specific accounting estimates, the auditor is required to comply with ISA (NZ) 560. ISA (NZ) 560 requires the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified⁴⁷ and appropriately reflected in the financial statements.⁴⁸ Because the measurement of many accounting estimates, other than fair value accounting estimates, usually depends on the outcome of future conditions, transactions or events, the auditor's work under ISA (NZ) 560 is particularly relevant.

Testing How Management Made the Accounting Estimate (Ref: Para. 22)

- A94. Testing how management made the accounting estimate may be an appropriate approach when, for example:
- The auditor's review of similar accounting estimates made in the prior period financial statements suggests that management's current period process is appropriate.
 - The accounting estimate is based on a large population of items of a similar nature that individually are not significant.
 - The applicable financial reporting framework specifies how management is expected to make the accounting estimate. For example, this may be the case for an expected credit loss provision.
 - The accounting estimate is derived from the routine processing of data.

⁴⁷ ISA (NZ) 560, paragraph 6

⁴⁸ ISA (NZ) 560, paragraph 8

Testing how management made the accounting estimate may also be an appropriate approach when neither of the other testing approaches is practical to perform, or may be an appropriate approach in combination with one of the other testing approaches.

Changes in Methods, Significant Assumptions and the Data from Prior Periods (Ref: Para. 23(a), 24(a), 25(a))

A95. When a change from prior periods in a method, significant assumption, or the data is not based on new circumstances or new information, or when significant assumptions are inconsistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities, the auditor may need to have further discussions with management about the circumstances and, in doing so, challenge management regarding the appropriateness of the assumptions used.

Indicators of Management Bias (Ref: Para. 23(b), 24(b), 25(b))

A96. When the auditor identifies indicators of possible management bias, the auditor may need a further discussion with management and may need to reconsider whether sufficient appropriate audit evidence has been obtained that the method, assumptions and data used were appropriate and supportable in the circumstances. An example of an indicator of management bias for a particular accounting estimate may be when management has developed an appropriate range for several different assumptions, and in each case the assumption used was from the end of the range that resulted in the most favorable measurement outcome.

Methods

The selection of the method (Ref: Para. 23(a))

A97. Relevant considerations for the auditor regarding the appropriateness of the method selected in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of changes from the prior period may include:

- Whether management's rationale for the method selected is appropriate;
- Whether the method is appropriate in the circumstances given the nature of the accounting estimate, the requirements of the applicable financial reporting framework, other available valuation concepts or techniques, regulatory requirements, and the business, industry and environment in which the entity operates;
- When management has determined that different methods result in a range of significantly different estimates, how management has investigated the reasons for these differences; and
- Whether the change is based on new circumstances or new information. When this is not the case, the change may not be reasonable or in compliance with the applicable financial reporting framework. Arbitrary changes result in inconsistent financial statements over time and may give rise to financial statement misstatements or may be an indicator of possible management bias. (see also paragraphs A133–A136)

These matters are important when the applicable financial reporting framework does not prescribe the method of measurement or allows multiple methods.

Complex modelling (Ref: Para. 23(d))

A98. A model, and the related method, is more likely to be complex when:

- Understanding and applying the method, including designing the model and selecting and using appropriate data and assumptions, requires specialised skills or knowledge;
- It is difficult to obtain data needed for use in the model because there are restrictions on the availability or observability of, or access to, data; or
- It is difficult to maintain the integrity (e.g., accuracy, consistency, or completeness) of the data and assumptions in using the model due to multiple valuation attributes, multiple relationships between them, or multiple iterations of the calculation.

A99. Matters that the auditor may consider when management uses a complex model include, for example, whether:

- The model is validated prior to usage or when there has been a change to the model, with periodic reviews to ensure it is still suitable for its intended use. The entity's validation process may include evaluation of:
 - The model's theoretical soundness;
 - The model's mathematical integrity;
 - The accuracy and completeness of the model's data and assumptions; and
 - The model's output as compared to actual transactions.
- Appropriate change control policies and procedures exist.
- Management uses appropriate skills and knowledge in using the model.

These considerations may also be useful for a method that does not involve complex modelling.

A100. Management may make adjustments to the output of the model to meet the requirements of the applicable financial reporting framework. In some industries these adjustments are referred to as overlays. In the case of fair value accounting estimates, it may be relevant to consider whether adjustments to the output of the model, if any, reflect the assumptions marketplace participants would use in similar circumstances.

Maintenance of integrity of significant assumptions and the data used in applying the method (Ref: Para. 23(e))

A101. Maintaining the integrity of significant assumptions and the data in applying the method refers to the maintenance of the accuracy and completeness of the data and assumptions through all stages of information processing. A failure to maintain such integrity may result in corruption of the data and assumptions and may give rise to misstatements. In this regard, relevant considerations for the auditor may include whether the data and assumptions are subject to all changes intended by management, and not subject to any unintended changes, during activities such as input, storage, retrieval, transmission or processing.

Significant Assumptions (Ref: Para. 24)

A102. Relevant considerations for the auditor regarding the appropriateness of the significant assumptions in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of changes from the prior period may include:

- Management's rationale for the selection of the assumption;
- Whether the assumption is appropriate in the circumstances given the nature of the accounting estimate, the requirements of the applicable financial reporting framework, and the business, industry and environment in which the entity operates; and
- Whether a change from prior periods in selecting an assumption is based on new circumstances or new information. When it is not, the change may not be reasonable nor in compliance with the applicable financial reporting framework. Arbitrary changes in an accounting estimate may give rise to material misstatements of the financial statements or may be an indicator of possible management bias (see paragraphs A133–A136).

A103. Management may evaluate alternative assumptions or outcomes of accounting estimates, which may be accomplished through a number of approaches depending on the circumstances. One possible approach is a sensitivity analysis. This might involve determining how the monetary amount of an accounting estimate varies with different assumptions. Even for accounting estimates measured at fair value, there may be variation because different market participants will use different assumptions. A sensitivity analysis may lead to the development of a number of outcome scenarios, sometimes characterised as a range of outcomes by management, and including 'pessimistic' and 'optimistic' scenarios.

A104. Through the knowledge obtained in performing the audit, the auditor may become aware of or may have obtained an understanding of assumptions used in other areas of the entity's business. Such matters may include, for example, business prospects, assumptions in strategy documents and future cash flows. Also, if the engagement partner has performed other engagements for the entity, ISA (NZ) 315 (Revised)⁴⁹ requires the engagement partner to consider whether information obtained from those other engagements is relevant to identifying risks of material misstatement. This information may also be useful to consider in addressing whether significant assumptions are consistent with each other and with those used in other accounting estimates.

A105. The appropriateness of the significant assumptions in the context of the requirements of the applicable financial reporting framework may depend on management's intent and ability to carry out certain courses of action. Management often documents plans and intentions relevant to specific assets or liabilities and the applicable financial reporting framework may require management to do so. The nature and extent of audit evidence to be obtained about management's intent and ability is a matter of professional judgement. When applicable, the auditor's procedures may include the following:

- Review of management's history of carrying out its stated intentions.
- Inspection of written plans and other documentation, including, when applicable, formally approved budgets, authorisations or minutes.
- Enquiry of management about its reasons for a particular course of action.
- Review of events occurring subsequent to the date of the financial statements and up to the date of the auditor's report.
- Evaluation of the entity's ability to carry out a particular course of action given the entity's economic circumstances, including the implications of its existing

⁴⁹ ISA (NZ) 315 (Revised), paragraph 8

commitments and legal, regulatory, or contractual restrictions that could affect the feasibility of management's actions.

- Consideration of whether management has met the applicable documentation requirements, if any, of the applicable financial reporting framework.

Certain financial reporting frameworks, however, may not permit management's intentions or plans to be taken into account when making an accounting estimate. This is often the case for fair value accounting estimates because their measurement objective requires that significant assumptions reflect those used by marketplace participants.

Data (Ref: Para. 25(a))

A106. Relevant considerations for the auditor regarding the appropriateness of the data selected for use in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of the changes from the prior period may include:

- Management's rationale for the selection of the data;
- Whether the data is appropriate in the circumstances given the nature of the accounting estimate, the requirements of the applicable financial reporting framework, and the business, industry and environment in which the entity operates; and
- Whether the change from prior periods in the sources or items of data selected or data selected, is based on new circumstances or new information. When it is not, it is unlikely to be reasonable nor in compliance with the applicable financial reporting framework. Arbitrary changes in an accounting estimate result in inconsistent financial statements over time and may give rise to financial statement misstatements or may be an indicator of possible management bias (see paragraphs A133–A136).

Relevance and reliability of the data (Ref: Para. 25(c))

A107. When using information produced by the entity, ISA (NZ) 500 requires the auditor to evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.⁵⁰

Complex legal or contractual terms (Ref: Para. 25(d))

A108. Procedures that the auditor may consider when the accounting estimate is based on complex legal or contractual terms include:

- Considering whether specialised skills or knowledge are needed to understand or interpret the contract;
- Enquiring of the entity's legal counsel regarding the legal or contractual terms; and
- Inspecting the underlying contracts to:
 - Evaluate, the underlying business purpose for the transaction or agreement; and
 - Consider whether the terms of the contracts are consistent with management's explanations.

⁵⁰ ISA (NZ) 500, paragraph 9

Management's Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty

Management's steps to understand and address estimation uncertainty (Ref: Para. 26(a))

A109. Relevant considerations regarding whether management has taken appropriate steps to understand and address estimation uncertainty may include whether management has:

- (a) Understood the estimation uncertainty, through identifying the sources, and assessing the degree of inherent variability in the measurement outcomes and the resulting range of reasonably possible measurement outcomes;
- (b) Identified the degree to which, in the measurement process, complexity or subjectivity affect the risk of material misstatement, and addressed the resulting potential for misstatement through applying:
 - (i) Appropriate skills and knowledge in making accounting estimates; and
 - (ii) Professional judgement, including by identifying and addressing susceptibility to management bias; and
- (c) Addressed estimation uncertainty through appropriately selecting management's point estimate and related disclosures that describe the estimation uncertainty.

The selection of management's point estimate and related disclosures of estimation uncertainty (Ref: Para. 26(b))

A110. Matters that may be relevant regarding the selection of management's point estimate and the development of related disclosures about estimation uncertainty include whether:

- The methods and data used were selected appropriately, including when alternative methods for making the accounting estimate and alternative sources of data were available.
- Valuation attributes used were appropriate and complete.
- The assumptions used were selected from a range of reasonably possible amounts and were supported by appropriate data that is relevant and reliable.
- The data used was appropriate, relevant and reliable, and the integrity of that data was maintained.
- The calculations were applied in accordance with the method and were mathematically accurate.
- Management's point estimate is appropriately chosen from the reasonably possible measurement outcomes.
- The related disclosures appropriately describe the amount as an estimate and explain the nature and limitations of the estimation process, including the variability of the reasonably possible measurement outcomes.

A111. Relevant considerations for the auditor regarding the appropriateness of management's point estimate, may include:

- When the requirements of the applicable financial reporting framework prescribe the point estimate that is to be used after consideration of the alternative outcomes and assumptions, or prescribes a specific measurement method, whether management has followed the requirements of the applicable financial reporting framework.

- When the applicable financial reporting framework has not specified how to select an amount from reasonably possible measurement outcomes, whether management has exercised judgement, taking into account the requirements of the applicable financial reporting framework.

A112. Relevant considerations for the auditor regarding management's disclosures about estimation uncertainty include the requirements of the applicable financial reporting framework, which may require disclosures:

- That describe the amount as an estimate and explain the nature and limitations of the process for making it, including the variability in reasonably possible measurement outcomes. The framework also may require additional disclosures to meet a disclosure objective.⁵¹
- About significant accounting policies related to accounting estimates. Depending on the circumstances, relevant accounting policies may include matters such as the specific principles, bases, conventions, rules and practices applied in preparing and presenting accounting estimates in the financial statements.
- About significant or critical judgements (for example, those that had the most significant effect on the amounts recognised in the financial statements) as well as significant forward-looking assumptions or other sources of estimation uncertainty.

In certain circumstances, additional disclosures beyond those explicitly required by the financial reporting framework may be needed in order to achieve fair presentation, or in the case of a compliance framework, for the financial statements not to be misleading.

A113. The greater the degree to which an accounting estimate is subject to estimation uncertainty, the more likely the risks of material misstatement will be assessed as higher and therefore the more persuasive the audit evidence needs to be to determine, in accordance with paragraph 35, whether management's point estimate and related disclosures about estimation uncertainty are reasonable in the context of the applicable financial reporting framework, or are misstated.

A114. If the auditor's consideration of estimation uncertainty associated with an accounting estimate, and its related disclosure, is a matter that required significant auditor attention, then this may constitute a key audit matter.⁵²

When Management Has Not Taken Appropriate Steps to Understand and Address Estimation Uncertainty (Ref: Para. 27)

A115. When the auditor determines that management has not taken appropriate steps to understand and address estimation uncertainty, additional procedures that the auditor may request management to perform to understand estimation uncertainty may include, for example, consideration of alternative assumptions or the performance of a sensitivity analysis.

A116. In considering whether it is practicable to develop a point estimate or range, matters the auditor may need to take into account include whether the auditor could do so without compromising independence requirements. This may include relevant ethical requirements that address prohibitions on assuming management responsibilities.

⁵¹ NZ IFRS 13 *Fair Value Measurement*, paragraph 92

⁵² ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

A117. If, after considering management's response, the auditor determines that it is not practicable to develop an auditor's point estimate or range, the auditor is required to evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with paragraph 34.

Developing an Auditor's Point Estimate or Using an Auditor's Range (Ref: Para. 28–29)

A118. Developing an auditor's point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty may be an appropriate approach when, for example:

- The auditor's review of similar accounting estimates made in the prior period financial statements suggests that management's current period process is not expected to be effective.
- The entity's controls within and over management's process for making accounting estimates are not well designed or properly implemented.
- Events or transactions between the period end and the date of the auditor's report have not been properly taken into account, when it is appropriate for management to do so, and such events or transactions appear to contradict management's point estimate.
- There are appropriate alternative assumptions or sources of relevant data that can be used in developing an auditor's point estimate or a range.
- Management has not taken appropriate steps to understand or address the estimation uncertainty (see paragraph 27).

A119. The decision to develop a point estimate or range also may be influenced by the applicable financial reporting framework, which may prescribe the point estimate that is to be used after consideration of the alternative outcomes and assumptions, or prescribe a specific measurement method (for example, the use of a discounted probability-weighted expected value, or the most likely outcome).

A120. The auditor's decision as to whether to develop a point estimate rather than a range may depend on the nature of the estimate and the auditor's judgement in the circumstances. For example, the nature of the estimate may be such that there is expected to be less variability in the reasonably possible outcomes. In these circumstances, developing a point estimate may be an effective approach, particularly when it can be developed with a higher degree of precision.

A121. The auditor may develop a point estimate or a range in a number of ways, for example, by:

- Using a different model than the one used by management, for example, one that is commercially available for use in a particular sector or industry, or a proprietary or auditor-developed model.
- Using management's model but developing alternative assumptions or data sources to those used by management.
- Using the auditor's own method but developing alternative assumptions to those used by management.
- Employing or engaging a person with specialised expertise to develop or execute a model, or to provide relevant assumptions.

- Consideration of other comparable conditions, transactions or events, or, where relevant, markets for comparable assets or liabilities.

A122. The auditor also may develop a point estimate or range for only part of the accounting estimate (for example, for a particular assumption, or when only a certain part of the accounting estimate is giving rise to the risk of material misstatement).

A123. When using the auditor's own methods, assumptions or data to develop a point estimate or range, the auditor may obtain evidence about the appropriateness of management's methods, assumptions or data. For example, if the auditor uses the auditor's own assumptions in developing a range to evaluate the reasonableness of management's point estimate, the auditor may also develop a view about whether management's judgements in selecting the significant assumptions used in making the accounting estimate give rise to indicators of possible management bias.

A124. The requirement in paragraph 29(a) for the auditor to determine that the range includes only amounts that are supported by sufficient appropriate audit evidence does not mean that the auditor is expected to obtain audit evidence to support each possible outcome in the range individually. Rather, the auditor is likely to obtain evidence to determine that the points at both ends of the range are reasonable in the circumstances, thereby supporting that amounts falling between those two points also are reasonable.

A125. The size of the auditor's range may be multiples of materiality for the financial statements as a whole, particularly when materiality is based on operating results (for example, pre-tax income) and this measure is relatively small in relation to assets or other balance sheet measures. This situation is more likely to arise in circumstances when the estimation uncertainty associated with the accounting estimate is itself multiples of materiality, which is more common for certain types of accounting estimates or in certain industries, such as insurance or banking, where a high degree of estimation uncertainty is more typical and there may be specific requirements in the applicable financial reporting framework in that regard. Based on the procedures performed and audit evidence obtained in accordance with the requirements of this ISA (NZ), the auditor may conclude that a range that is multiples of materiality is, in the auditor's judgement, appropriate in the circumstances. When this is the case, the auditor's evaluation of the reasonableness of the disclosures about estimation uncertainty becomes increasingly important, particularly whether such disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes. Paragraphs A139–A144 include additional considerations that may be relevant in these circumstances.

Other Considerations Relating to Audit Evidence (Ref: Para. 30)

A126. Information to be used as audit evidence, regarding risks of material misstatement relating to accounting estimates, may have been produced by the entity, prepared using the work of a management's expert, or provided by an external information source.

External Information Sources

A127. As explained in ISA (NZ) 500,⁵³ the reliability of information from an external information source is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors. For example:

⁵³ ISA (NZ) 500, Paragraph A35

- When market or industry data, prices, or pricing related data, are obtained from a single external information source, specialising in such information, the auditor may seek a price from an alternative independent source with which to compare.
- When market or industry data, prices, or pricing related data, are obtained from multiple independent external information sources and points to consensus across those sources, the auditor may need to obtain less evidence about the reliability of the data from an individual source.
- When information obtained from multiple information sources points to divergent market views the auditor may seek to understand the reasons for the diversity in views. The diversity may result from the use of different methods, assumptions, or data. For example, one source may be using current prices and another source using future prices. When the diversity relates to estimation uncertainty, the auditor is required by paragraph 26(b) to obtain sufficient appropriate audit evidence about whether, in the context of the applicable financial reporting framework, the disclosures in the financial statements that describe the estimation uncertainty are reasonable. In such cases professional judgement is also important in considering information about the methods, assumptions or data applied.
- When information obtained from an external information source has been developed by that source using its own model(s). Paragraph A43 of ISA (NZ) 500 provides relevant guidance.

A128. For fair value accounting estimates, additional considerations of the relevance and reliability of information obtained from external information sources may include:

- (a) Whether fair values are based on trades of the same instrument or active market quotations;
- (b) When the fair values are based on transactions of comparable assets or liabilities, how those transactions are identified and considered comparable;
- (c) When there are no transactions either for the asset or liability or comparable assets or liabilities, how the information was developed including whether the inputs developed and used represent the assumptions that market participants would use when pricing the asset or liability, if applicable; and
- (d) When the fair value measurement is based on a broker quote, whether the broker quote:
 - (i) Is from a market maker who transacts in the same type of financial instrument;
 - (ii) Is binding or nonbinding, with more weight placed on quotes based on binding offers; and
 - (iii) Reflects market conditions as of the date of the financial statements, when required by the applicable financial reporting framework.

A129. When information from an external information source is used as audit evidence, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions and other data used by the external information source. This may be limited in some respects and consequently influence the auditor's consideration of the nature, timing and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when

providing broker indicative quotes for individual securities. Paragraph A44 of ISA (NZ) 500 provides guidance with respect to restrictions placed by the external information source on the provision of supporting information.

Management's Expert

A130. Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate. Accordingly, the auditor applies the relevant requirements in this ISA (NZ) to those assumptions.

A131. If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this ISA (NZ) may assist the auditor in applying paragraph 8(c) of ISA (NZ) 500.

Service Organisations

A132. ISA (NZ) 402⁵⁴ deals with the auditor's understanding of the services provided by a service organisation, including internal control, as well as the auditor's responses to assessed risks of material misstatement. When the entity uses the services of a service organisation in making accounting estimates, the requirements and guidance in ISA (NZ) 402 may therefore assist the auditor in applying the requirements of this ISA (NZ).

Indicators of Possible Management Bias (Ref: Para. 32)

A133. Management bias may be difficult to detect at an account level and may only be identified by the auditor when considering groups of accounting estimates, all accounting estimates in aggregate, or when observed over a number of accounting periods. For example, if accounting estimates included in the financial statements are considered to be individually reasonable but management's point estimates consistently trend toward one end of the auditor's range of reasonable outcomes that provide a more favorable financial reporting outcome for management, such circumstances may indicate possible bias by management.

A134. Examples of indicators of possible management bias with respect to accounting estimates include:

- Changes in an accounting estimate, or the method for making it, when management has made a subjective assessment that there has been a change in circumstances.
- Selection or development of significant assumptions or the data that yield a point estimate favourable for management objectives.
- Selection of a point estimate that may indicate a pattern of optimism or pessimism.

When such indicators are identified, there may be a risk of material misstatement either at the assertion or financial statement level. Indicators of possible management bias themselves do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. However, in some cases the audit evidence may point to a misstatement rather than simply an indicator of management bias.

⁵⁴ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

A135. Indicators of possible management bias may affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate. The auditor may also need to consider the implications for other aspects of the audit, including the need to further question the appropriateness of management's judgements in making accounting estimates. Further, indicators of possible management bias may affect the auditor's conclusion as to whether the financial statements as a whole are free from material misstatement, as discussed in ISA (NZ) 700 (Revised).⁵⁵

A136. In addition, in applying ISA (NZ) 240, the auditor is required to evaluate whether management's judgements and decisions in making the accounting estimates included in the financial statements indicate a possible bias that may represent a material misstatement due to fraud.⁵⁶ Fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates, which may include intentionally understating or overstating accounting estimates. Indicators of possible management bias that may also be a fraud risk factor, may cause the auditor to reassess whether the auditor's risk assessments, in particular the assessment of fraud risks, and related responses remain appropriate.

Overall Evaluation Based on Audit Procedures Performed (Ref: Para. 33)

A137. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures.⁵⁷ In relation to accounting estimates, information may come to the auditor's attention through performing procedures to obtain audit evidence that differs significantly from the information on which the risk assessment was based. For example, the auditor may have identified that the only reason for an assessed risk of material misstatement is the subjectivity involved in making the accounting estimate. However, while performing procedures to respond to the assessed risks of material misstatement, the auditor may discover that the accounting estimate is more complex than originally contemplated, which may call into question the assessment of the risk of material misstatement (for example, the inherent risk may need to be re-assessed on the higher end of the spectrum of inherent risk due to the effect of complexity) and therefore the auditor may need to perform additional further audit procedures to obtain sufficient appropriate audit evidence.⁵⁸

A138. With respect to accounting estimates that have not been recognised, a particular focus of the auditor's evaluation may be on whether the recognition criteria of the applicable financial reporting framework have in fact been met. When an accounting estimate has not been recognised, and the auditor concludes that this treatment is appropriate, some financial reporting frameworks may require disclosure of the circumstances in the notes to the financial statements.

Determining Whether the Accounting Estimates are Reasonable or Misstated (Ref: Para. 9, 35)

A139. In determining whether, based on the audit procedures performed and evidence obtained, management's point estimate and related disclosures are reasonable, or are misstated:

⁵⁵ ISA (NZ) 700 (Revised), paragraph 11

⁵⁶ ISA (NZ) 240, paragraph 33(b)

⁵⁷ ISA (NZ) 330, paragraph A60

⁵⁸ See also ISA (NZ) 315 (Revised), paragraph 31

- When the audit evidence supports a range, the size of the range may be wide and, in some circumstances, may be multiples of materiality for the financial statements as a whole (see also paragraph A125). Although a wide range may be appropriate in the circumstances, it may indicate that it is important for the auditor to reconsider whether sufficient appropriate audit evidence has been obtained regarding the reasonableness of the amounts within the range.
- The audit evidence may support a point estimate that differs from management's point estimate. In such circumstances, the difference between the auditor's point estimate and management's point estimate constitutes a misstatement.
- The audit evidence may support a range that does not include management's point estimate. In such circumstances, the misstatement is the difference between management's point estimate and the nearest point of the auditor's range.

A140. Paragraphs A110–A114 provide guidance to assist the auditor in evaluating management's selection of a point estimate and related disclosures to be included in the financial statements.

A141. When the auditor's further audit procedures include testing how management made the accounting estimate or developing an auditor's point estimate or range, the auditor is required to obtain sufficient appropriate audit evidence about disclosures that describe estimation uncertainty in accordance with paragraphs 26(b) and 29(b) and other disclosures in accordance with paragraph 31. The auditor then considers the audit evidence obtained about disclosures as part of the overall evaluation, in accordance with paragraph 35, of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

A142. ISA (NZ) 450 also provides guidance regarding qualitative disclosures⁵⁹ and when misstatements in disclosures could be indicative of fraud.⁶⁰

A143. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation⁶¹ includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the transactions and events in a manner that achieves fair presentation. For example, when an accounting estimate is subject to a higher degree of estimation uncertainty, the auditor may determine that additional disclosures are necessary to achieve fair presentation. If management does not include such additional disclosures, the auditor may conclude that the financial statements are materially misstated.

A144. ISA (NZ) 705 (Revised)⁶² provides guidance on the implications for the auditor's opinion when the auditor believes that management's disclosures in the financial statements are inadequate or misleading, including, for example, with respect to estimation uncertainty.

Written Representations (Ref: Para. 37)

A145. Written representations about specific accounting estimates may include representations:

⁵⁹ ISA (NZ) 450, paragraph A17

⁶⁰ ISA (NZ) 450, paragraph A22

⁶¹ ISA (NZ) 700 (Revised), paragraph 14

⁶² ISA (NZ) 705 (Revised), paragraphs 22–23

- That the significant judgements made in making the accounting estimates have taken into account all relevant information of which management is aware.
- About the consistency and appropriateness in the selection or application of the methods, assumptions and data used by management in making the accounting estimates.
- That the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the entity, when relevant to the accounting estimates and disclosures.
- That disclosures related to accounting estimates, including disclosures describing estimation uncertainty, are complete and are reasonable in the context of the applicable financial reporting framework.
- That appropriate specialised skills or expertise has been applied in making the accounting estimates.
- That no subsequent event requires adjustment to the accounting estimates and related disclosures included in the financial statements.
- When accounting estimates are not recognised or disclosed in the financial statements, about the appropriateness of management's decision that the recognition or disclosure criteria of the applicable financial reporting framework have not been met.

Communication with Those Charged With Governance, Management or Other Relevant Parties (Ref: Para. 38)

A146. In applying ISA (NZ) 260 (Revised), the auditor communicates with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices relating to accounting estimates and related disclosures.⁶³ Appendix 2 includes matters specific to accounting estimates that the auditor may consider communicating to those charged with governance.

A147. ISA (NZ) 265 requires the auditor to communicate in writing to those charged with governance significant deficiencies in internal control identified during the audit.⁶⁴ Such significant deficiencies may include those related to controls over:

- (a) The selection and application of significant accounting policies, and the selection and application of methods, assumptions and data;
- (e) Risk management and related systems;
- (f) Data integrity, including when data is obtained from an external information source; and
- (g) The use, development and validation of models, including models obtained from an external provider, and any adjustments that may be required.

A148. In addition to communicating with those charged with governance, the auditor may be permitted or required to communicate directly with regulators or prudential supervisors. Such communication may be useful throughout the audit or at particular stages, such as when planning the audit or when finalising the auditor's report. For example, in some jurisdictions, financial institution regulators seek to cooperate with

⁶³ ISA (NZ) 260 (Revised), paragraph 16(a)

⁶⁴ ISA (NZ) 265, paragraph 9

auditors to share information about the operation and application of controls over financial instrument activities, challenges in valuing financial instruments in inactive markets, expected credit losses, and insurance reserves while other regulators may seek to understand the auditor's views on significant aspects of the entity's operations including the entity's costs estimates. This communication may be helpful to the auditor in identifying, assessing and responding to risks of material misstatement.

Documentation (Ref: Para. 39)

A149. ISA (NZ) 315 (Revised)⁶⁵ and ISA (NZ) 330⁶⁶ provide requirements and guidance on documenting the auditor's understanding of the entity, risk assessments and responses to assessed risks. This guidance is based on the requirements and guidance in ISA (NZ) 230.⁶⁷ In the context of auditing accounting estimates, the auditor is required to prepare audit documentation about key elements of the auditor's understanding of the entity and its environment related to accounting estimates. In addition, the auditor's judgements about the assessed risks of material misstatement related to accounting estimates, and the auditor's responses, may likely be further supported by documentation of communications with those charged with governance and management.

A150. In documenting the linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level, in accordance with ISA (NZ) 330, this ISA (NZ) requires that the auditor take into account the reasons given to the risks of material misstatement at the assertion level. Those reasons may relate to one or more inherent risk factors or the auditor's assessment of control risk. However, the auditor is not required to document how every inherent risk factor was taken into account in identifying and assessing the risks of material misstatement in relation to each accounting estimate.

A151. The auditor also may consider documenting:

- When management's application of the method involves complex modelling, whether management's judgements have been applied consistently and, when applicable, that the design of the model meets the measurement objective of the applicable financial reporting framework.
- When the selection and application of methods, significant assumptions, or the data is affected by complexity to a higher degree, the auditor's judgements in determining whether specialised skills or knowledge are required to perform the risk assessment procedures, to design and perform procedures responsive to those risks, or to evaluate the audit evidence obtained. In these circumstances, the documentation also may include how the required skills or knowledge were applied.

A152. Paragraph NZA7.1 of ISA (NZ) 230 notes that, although there may be no single way in which the auditor's exercise of professional scepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional scepticism. For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgements made in forming a conclusion as to the sufficiency and appropriateness of the audit evidence obtained. Examples of other

⁶⁵ ISA (NZ) 315 (Revised), paragraphs 32 and A153–A156

⁶⁶ ISA (NZ) 330, paragraphs 28 and A63

⁶⁷ ISA (NZ) 230, paragraph 8(c)

requirements in this ISA (NZ) for which documentation may provide evidence of the exercise of professional scepticism by the auditor include:

- Paragraph 13(d), regarding how the auditor has applied an understanding in developing the auditor's own expectation of the accounting estimates and related disclosures to be included in the entity's financial statements and how that expectation compares with the entity's financial statements prepared by management;
- Paragraph 18, which requires further audit procedures to be designed and performed to obtain sufficient appropriate evidence in a manner that is not biased toward obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory;
- Paragraphs 23(b), 24(b), 25(b) and 32, which address indicators of possible management bias; and
- Paragraph 34, which addresses the auditor's consideration of all relevant audit evidence, whether corroborative or contradictory.

Appendix 1

(Ref: Para. 2, 4, 12(c), A8, A66)

Inherent Risk Factors**Introduction**

1. In identifying, assessing and responding to the risks of material misstatement at the assertion level for an accounting estimate and related disclosures, this ISA (NZ) requires the auditor to take into account the degree to which the accounting estimate is subject to estimation uncertainty, and the degree to which the selection and application of the methods, assumptions and data used in making the accounting estimate, and the selection of management's point estimate and related disclosures for inclusion in the financial statements, are affected by complexity, subjectivity or other inherent risk factors.
2. Inherent risk related to an accounting estimate is the susceptibility of an assertion about the accounting estimate to material misstatement, before consideration of controls. Inherent risk results from inherent risk factors, which give rise to challenges in appropriately making the accounting estimate. This Appendix provides further explanation about the nature of the inherent risk factors of estimation uncertainty, subjectivity and complexity, and their inter-relationships, in the context of making accounting estimates and selecting management's point estimate and related disclosures for inclusion in the financial statements.

Measurement Basis

3. The measurement basis and the nature, condition and circumstances of the financial statement item give rise to relevant valuation attributes. When the cost or price of the item cannot be directly observed, an accounting estimate is required to be made by applying an appropriate method and using appropriate data and assumptions. The method may be specified by the applicable financial reporting framework, or is selected by management, to reflect the available knowledge about how the relevant valuation attributes would be expected to influence the cost or price of the item on the measurement basis.

Estimation Uncertainty

4. Susceptibility to a lack of precision in measurement is often referred to in accounting frameworks as measurement uncertainty. Estimation uncertainty is defined in this ISA (NZ) as susceptibility to an inherent lack of precision in measurement. It arises when the required monetary amount for a financial statement item that is recognised or disclosed in the financial statements cannot be measured with precision through direct observation of the cost or price. When direct observation is not possible, the next most precise alternative measurement strategy is to apply a method that reflects the available knowledge about cost or price for the item on the relevant measurement basis, using observable data about relevant valuation attributes.
5. However, constraints on the availability of such knowledge or data may limit the verifiability of such inputs to the measurement process and therefore limit the precision of measurement outcomes. Furthermore, most accounting frameworks acknowledge that there are practical constraints on the information that should be taken into account, such as when the cost of obtaining it would exceed the benefits. The lack of precision in measurement arising from these constraints is inherent because it cannot be eliminated from the measurement process. Accordingly, such constraints are sources of estimation

uncertainty. Other sources of measurement uncertainty that may occur in the measurement process are, at least in principle, capable of elimination if the method is applied appropriately and therefore are sources of potential misstatement rather than estimation uncertainty.

6. When estimation uncertainty relates to uncertain future inflows or outflows of economic benefits that will ultimately result from the underlying asset or liability, the outcome of these flows will only be observable after the date of the financial statements. Depending on the nature of the applicable measurement basis and on the nature, condition and circumstances of the financial statement item, this outcome may be directly observable before the financial statements are finalised or may only be directly observable at a later date. For some accounting estimates, there may be no directly observable outcome at all.
7. Some uncertain outcomes may be relatively easy to predict with a high level of precision for an individual item. For example, the useful life of a production machine may be easily predicted if sufficient technical information is available about its average useful life. When it is not possible to predict a future outcome, such as an individual's life expectancy based on actuarial assumptions, with reasonable precision, it may still be possible to predict that outcome for a group of individuals with greater precision. Measurement bases may, in some cases, indicate a portfolio level as the relevant unit of account for measurement purposes, which may reduce inherent estimation uncertainty.

Complexity

8. Complexity (i.e., the complexity inherent in the process of making an accounting estimate, before consideration of controls) gives rise to inherent risk. Inherent complexity may arise when:
 - There are many valuation attributes with many or non-linear relationships between them.
 - Determining appropriate values for one or more valuation attributes requires multiple data sets.
 - More assumptions are required in making the accounting estimate, or when there are correlations between the required assumptions.
 - The data used is inherently difficult to identify, capture, access or understand.
9. Complexity may be related to the complexity of the method and of the computational process or model used to apply it. For example, complexity in the model may reflect the need to apply probability-based valuation concepts or techniques, option pricing formulae or simulation techniques to predict uncertain future outcomes or hypothetical behaviours. Similarly, the computational process may require data from multiple sources, or multiple data sets to support the making of an assumption or the application of sophisticated mathematical or statistical concepts.
10. The greater the complexity, the more likely it is that management will need to apply specialised skills or knowledge in making an accounting estimate or engage a management's expert, for example in relation to:
 - Valuation concepts and techniques that could be used in the context of the measurement basis and objectives or other requirements of the applicable financial reporting framework and how to apply those concepts or techniques;

- The underlying valuation attributes that may be relevant given the nature of the measurement basis and the nature, condition and circumstances of the financial statement items for which accounting estimates are being made; or
 - Identifying appropriate sources of data from internal sources (including from sources outside the general or subsidiary ledgers) or from external information sources, determining how to address potential difficulties in obtaining data from such sources or in maintaining its integrity in applying the method, or understanding the relevance and reliability of that data.
11. Complexity relating to data may arise, for example, in the following circumstances:
- (a) When data is difficult to obtain or when it relates to transactions that are not generally accessible. Even when such data is accessible, for example through an external information source, it may be difficult to consider the relevance and reliability of the data, unless the external information source discloses adequate information about the underlying data sources it has used and about any data processing that has been performed.
 - (b) When data reflecting an external information source's views about future conditions or events, which may be relevant in developing support for an assumption, is difficult to understand without transparency about the rationale and information taken into account in developing those views.
 - (c) When certain types of data are inherently difficult to understand because they require an understanding of technically complex business or legal concepts, such as may be required to properly understand data that comprises the terms of legal agreements about transactions involving complex financial instruments or insurance products.

Subjectivity

12. Subjectivity (i.e., the subjectivity inherent in the process of making an accounting estimate, before consideration of controls) reflects inherent limitations in the knowledge or data reasonably available about valuation attributes. When such limitations exist, the applicable financial reporting framework may reduce the degree of subjectivity by providing a required basis for making certain judgements. Such requirements may, for example, set explicit or implied objectives relating to measurement, disclosure, the unit of account, or the application of a cost constraint. The applicable financial reporting framework may also highlight the importance of such judgements through requirements for disclosures about those judgements.
13. Management judgement is generally needed in determining some or all of the following matters, which often involve subjectivity:
- To the extent not specified under the requirements of the applicable financial reporting framework, the appropriate valuation approaches, concepts, techniques and factors to use in the estimation method, having regard to available knowledge;
 - To the extent valuation attributes are observable when there are various potential sources of data, the appropriate sources of data to use;
 - To the extent valuation attributes are not observable, the appropriate assumptions or range of assumptions to make, having regard to the best available data, including, for example, market views;

- The range of reasonably possible outcomes from which to select management's point estimate, and the relative likelihood that certain points within that range would be consistent with the objectives of the measurement basis required by the applicable financial reporting framework; and
 - The selection of management's point estimate, and the related disclosures to be made, in the financial statements.
14. Making assumptions about future events or conditions involves the use of judgement, the difficulty of which varies with the degree to which those events or conditions are uncertain. The precision with which it is possible to predict uncertain future events or conditions depends on the degree to which those events or conditions are determinable based on knowledge, including knowledge of past conditions, events and related outcomes. The lack of precision also contributes to estimation uncertainty, as described above.
 15. With respect to future outcomes, assumptions will only need to be made for those features of the outcome that are uncertain. For example, in considering the measurement of a possible impairment of a receivable for a sale of goods at the balance sheet date, the amount of the receivable may be unequivocally established and directly observable in the related transaction documents. What may be uncertain is the amount, if any, for loss due to impairment. In this case, assumptions may only be required about the likelihood of loss and about the amount and timing of any such loss.
 16. However, in other cases, the amounts of cash flows embodied in the rights relating to an asset may be uncertain. In those cases, assumptions may have to be made about both the amounts of the underlying rights to cash flows and about potential losses due to impairment.
 17. It may be necessary for management to consider information about past conditions and events, together with current trends and expectations about future developments. Past conditions and events provide historical information that may highlight repeating historical patterns that can be extrapolated in evaluating future outcomes. Such historical information may also indicate changing patterns of such behaviour over time (cycles or trends). These may suggest that the underlying historical patterns of behaviour have been changing in somewhat predictable ways that may also be extrapolated in evaluating future outcomes. Other types of information may also be available that indicate possible changes in historical patterns of such behaviour or in related cycles or trends. Difficult judgements may be needed about the predictive value of such information.
 18. The extent and nature (including the degree of subjectivity involved) of the judgements taken in making the accounting estimates may create opportunity for management bias in making decisions about the course of action that, according to management, is appropriate in making the accounting estimate. When there is also a high level of complexity or a high level of estimation uncertainty, or both, the risk of, and opportunity for, management bias or fraud may also be increased.

Relationship of Estimation Uncertainty to Subjectivity and Complexity

19. Estimation uncertainty gives rise to inherent variation in the possible methods, data sources and assumptions that could be used to make an accounting estimate. This gives rise to subjectivity, and hence, the need for the use of judgement in making the accounting estimate. Such judgements are required in selecting the appropriate methods and data sources, in making the assumptions, and in selecting management's point estimate and

related disclosures for inclusion in the financial statements. These judgements are made in the context of the recognition, measurement, presentation and disclosure requirements of the applicable financial reporting framework. However, because there are constraints on the availability and accessibility of knowledge or information to support these judgements, they are subjective in nature.

20. Subjectivity in such judgements creates the opportunity for unintentional or intentional management bias in making them. Many accounting frameworks require that information prepared for inclusion in the financial statements should be neutral (i.e., that it should not be biased). Given that bias can, at least in principle, be eliminated from the estimation process, sources of potential bias in the judgements made to address subjectivity are sources of potential misstatement rather than sources of estimation uncertainty.
21. The inherent variation in the possible methods, data sources and assumptions that could be used to make an accounting estimate (see paragraph 19) also gives rise to variation in the possible measurement outcomes. The size of the range of reasonably possible measurement outcomes results from the degree of estimation uncertainty and is often referred to as the sensitivity of the accounting estimate. In addition to determining measurement outcomes, an estimation process also involves analysing the effect of inherent variations in the possible methods, data sources and assumptions on the range of reasonably possible measurement outcomes (referred to as sensitivity analysis).
22. Developing a financial statement presentation for an accounting estimate, which, when required by the applicable financial reporting framework, achieves faithful representation (i.e., complete, neutral and free from error) includes making appropriate judgements in selecting a management point estimate that is appropriately chosen from within the range of reasonably possible measurement outcomes and related disclosures that appropriately describe the estimation uncertainty. These judgements may themselves involve subjectivity, depending on the nature of the requirements in the applicable financial reporting framework that address these matters. For example, the applicable financial reporting framework may require a specific basis (such as a probability weighted average or a best estimate) for the selection of the management point estimate. Similarly, it may require specific disclosures or disclosures that meet specified disclosure objectives or additional disclosures that are required to achieve fair presentation in the circumstances.
23. Although an accounting estimate that is subject to a higher degree of estimation uncertainty may be less precisely measurable than one subject to a lower degree of estimation uncertainty, the accounting estimate may still have sufficient relevance for users of the financial statements to be recognised in the financial statements if, when required by the applicable financial reporting framework, a faithful representation of the item can be achieved. In some cases, estimation uncertainty may be so great that the recognition criteria in the applicable financial reporting framework are not met and the accounting estimate cannot be recognised in the financial statements. Even in these circumstances, there may still be relevant disclosure requirements, for example to disclose the point estimate or range of reasonably possible measurement outcomes and information describing the estimation uncertainty and constraints in recognising the item. The requirements of the applicable financial reporting framework that apply in these circumstances may be specified to a greater or lesser degree. Accordingly, in these circumstances, there may be additional judgements that involve subjectivity to be made.

Appendix 2

(Ref: Para. A146)

Communications with Those Charged with Governance

Matters that the auditor may consider communicating with those charged with governance with respect to the auditor's views about significant qualitative aspects of the entity's accounting practices related to accounting estimates and related disclosures include:

- (a) How management identifies transactions, other events and conditions that may give rise to the need for, or changes in, accounting estimates and related disclosures.
- (b) Risks of material misstatement.
- (c) The relative materiality of the accounting estimates to the financial statements as a whole;
- (d) Management's understanding (or lack thereof) regarding the nature and extent of, and the risks associated with, accounting estimates;
- (e) Whether management has applied appropriate specialised skills or knowledge or engaged appropriate experts.
- (f) The auditor's views about differences between the auditor's point estimate or range and management's point estimate.
- (g) The auditor's views about the appropriateness of the selection of accounting policies related to accounting estimates and presentation of accounting estimates in the financial statements.
- (h) Indicators of possible management bias.
- (i) Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates
- (j) When there has been a change from the prior period in the methods for making the accounting estimate, why, as well as the outcome of accounting estimates in prior periods.
- (k) Whether management's methods for making the accounting estimates, including when management has used a model, are appropriate in the context of the measurement objectives, the nature, conditions and circumstances, and other requirements of the applicable financial reporting framework.
- (l) The nature and consequences of significant assumptions used in accounting estimates and the degree of subjectivity involved in the development of the assumptions;
- (m) Whether significant assumptions are consistent with each other and with those used in other accounting estimates, or with assumptions used in other areas of the entity's business activities.
- (n) When relevant to the appropriateness of the significant assumptions or the appropriate application of the applicable financial reporting framework, whether management has the intent to carry out specific courses of action and has the ability to do so.
- (o) How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.

- (p) Whether the data and significant assumptions used by management in making the accounting estimates are appropriate in the context of the applicable financial reporting framework.
- (q) The relevance and reliability of information obtained from an external information source.
- (r) Significant difficulties encountered when obtaining sufficient appropriate audit evidence relating to data obtained from an external information source or valuations performed by management or a management's expert.
- (s) Significant differences in judgements between the auditor and management or a management's expert regarding valuations.
- (t) The potential effects on the entity's financial statements of material risks and exposures required to be disclosed in the financial statements, including the estimation uncertainty associated with accounting estimates.
- (u) The reasonableness of disclosures about estimation uncertainty in the financial statements.
- (v) Whether management's decisions relating to the recognition, measurement, presentation and disclosure of the accounting estimates and related disclosures in the financial statements are in accordance with the applicable financial reporting framework.

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement accompanies but is not part of ISA (NZ) 540 (Revised).

Conformity with International Standards on Auditing

This International Standard on Auditing (New Zealand) (ISA (NZ)) conforms to International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 540.

Comparison with Australian Auditing Standards

[to be completed once AUASB issues ISA 540]

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued...

ASA 540 conforms to ISA 540.]



**NZ AUDITING
AND ASSURANCE
STANDARDS BOARD**

CONFORMING AND CONSEQUENTIAL AMENDMENTS TO INTERNATIONAL STANDARDS ON AUDITING (NEW ZEALAND) AND OTHER PRONOUNCEMENTS ARISING FROM ISA (NZ) 540 (REVISED)¹

This Standard was issued on **xx November 2018** by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on **xx December 2018**.

An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods beginning on or after 15 December 2019. However, early adoption is permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to reflect conforming amendments necessary as a result of the approval of ISA (NZ) 540 (Revised).

¹ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Disclosures*

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C: EFFECTIVE DATE

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.

A: INTRODUCTION

This standard outlines conforming amendments to the International Standards on Auditing (New Zealand) and other pronouncements as a result of the revisions to International Standard on Auditing (New Zealand) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

These conforming amendments affect the following International Standards on Auditing (New Zealand) and other pronouncements and are arranged in the following manner:

- *ISA (NZ) 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing*
- *ISA (NZ) 230, Audit Documentation*
- *ISA (NZ) 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*
- *ISA (NZ) 260 (Revised), Communication with Those Charged with Governance*
- *ISA (NZ) 500, Audit Evidence*
- *ISA (NZ) 580, Written Representations*
- *ISA (NZ) 700 (Revised), Forming an Opinion and Reporting on Financial Statements*
- *ISA (NZ) 701, Communicating Key Audit Matters in the Independent Auditor's Report*
- *XRB Au1, Application of Auditing and Assurance Standards*

B: CONFORMING AND CONSEQUENTIAL AMENDMENTS TO INTERNATIONAL STANDARDS ON AUDITING (NEW ZEALAND) AND OTHER PRONOUNCEMENTS ARISING FROM ISA (NZ) 540 (REVISED)²

Amendments to extant International Standards on Auditing (New Zealand) and other pronouncements as shown. New text is underlined and deleted text is struck through.
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Note: The footnote numbers within these amendments do not align with the ISAs (NZ) and other pronouncements that are amended, and reference should be made to those ISAs (NZ) and other pronouncements.

ISA (NZ) 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing

Application and Other Explanatory Material

...

Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)

...

Audit Risk

...

Risks of Material Misstatement

...

A42. The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. The ISAs (NZ) do not ordinarily refer to inherent risk and control risk separately, but rather to a combined assessment of the “risks of material misstatement.” However, ISA (NZ) 540 (Revised)³ requires a separate assessment of inherent risk and control risk to provide a basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement, including significant risks, for accounting estimates at the assertion level in accordance with ISA (NZ) 330.⁴ In identifying and assessing risks of material misstatement for significant classes of transactions, account balances or disclosures other than accounting estimates, the auditor may make separate or combined assessments of inherent and control risk depending on preferred audit techniques or methodologies and practical considerations. ~~The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-~~

² ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

³ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph 15

⁴ ISA (NZ) 330, paragraph 7(b)

quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made.

ISA (NZ) 230, *Audit Documentation*

Requirements

...

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2–A5, A16–A17)
- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements; (Ref: Para. A6–A7)
 - (b) The results of the audit procedures performed, and the audit evidence obtained; and
 - (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions. (Ref: Para. A8–A11)

...

Application and Other Explanatory Material

...

Documentation of Compliance with ISAs (NZ) (Ref: Para. 8(a))

...

A7. [Amended by the NZAuASB]

NZA7.1 Audit documentation provides evidence that the audit complies with the ISAs (NZ). However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with those charged with governance.
- An auditor's report containing an appropriately qualified opinion on the financial statements demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the ISAs (NZ).
- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:

- For example, there may be no single way in which the auditor's professional scepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor's exercise of professional scepticism in accordance with the ISAs (NZ). For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, documenting how the auditor evaluated that evidence, including the professional judgements made in forming a conclusion as to the sufficiency and appropriateness of the audit evidence obtained. Such evidence may include specific procedures performed to corroborate management's responses to the auditor's inquiries.
- Similarly, that the engagement partner has taken responsibility for the direction, supervision and performance of the audit in compliance with the ISAs (NZ) may be evidenced in a number of ways within the audit documentation. This may include documentation of the engagement partner's timely involvement in aspects of the audit, such as participation in the team discussions required by ISA (NZ) 315 (Revised).⁵

...

Documentation of Significant Matters and Related Significant Professional Judgements (Ref: Para. 8(c))

...

A10. Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgement include, where the matters and judgements are significant:

- The rationale for the auditor's conclusion when a requirement provides that the auditor "shall consider" certain information or factors, and that consideration is significant in the context of the particular engagement.
- The basis for the auditor's conclusion on the reasonableness of areas of subjective judgements made by management (~~for example, the reasonableness of significant accounting estimates~~).
- The basis for the auditor's evaluation of whether an accounting estimate and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.
- The basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
- When ISA (NZ) 701 applies,⁶ the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated.

⁵ ISA (NZ) 315 (Revised), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 10-

⁶ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Appendix

(Ref: Para 1)

Specific Audit Documentation Requirements and Guidance in Other ISAs (NZ)

...

- ISA (NZ) 540 (Revised), *Auditing Accounting Estimates, ~~Including Fair Value Accounting Estimates~~, and Related Disclosures* – paragraph 37~~23~~

...

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

Application and Other Explanatory Material

...

A48. A retrospective review is also required by ISA (NZ) 540 (Revised).⁷ That review is conducted as a risk assessment procedure to obtain information regarding the effectiveness of management's ~~previous prior period estimation process~~ accounting estimates, audit evidence about the outcome, or where applicable, their subsequent re-estimation ~~of prior period accounting estimates that is pertinent to making~~ to assist in identifying and assessing the risks of material misstatement in the current period accounting estimates, and audit evidence of matters, such as estimation uncertainty, that may be required to be disclosed in the financial statements. As a practical matter, the auditor's review of management judgements and assumptions for biases that could represent a risk of material misstatement due to fraud in accordance with this ISA (NZ) may be carried out in conjunction with the review required by ISA (NZ) 540 (Revised).

...

⁷- ~~ISA (NZ) 540 (Revised), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures," paragraph 9.~~

ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

Requirements

...

Matters to Be Communicated

...

Significant Findings from the Audit

16. The auditor shall communicate with those charged with governance: (Ref: Para. A17–A18)
- (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19–A20)
 - (b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A21)
 - (c) Unless all of those charged with governance are involved in managing the entity:
 - (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A22)
 - (ii) Written representations the auditor is requesting;
 - (d) Circumstances that affect the form and content of the auditor's report, if any; and (Ref: Para. A23–A25)
 - (e) Any other significant matters arising during the audit that, in the auditor's professional judgement, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)

...

Application and Other Explanatory Material

...

Matters to Be Communicated

...

Significant Findings from the Audit

...

Significant Qualitative Aspects of Accounting Practices (Ref: Para. 16(a))

- A19. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgements about accounting policies and financial statement disclosures, for example,

in relation to the use of ~~key~~ assumptions in the development of accounting estimates ~~for which there is significant measurement uncertainty~~. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to “critical accounting estimates” or “critical accounting policies and practices” to identify and provide additional information to users about the most difficult, subjective or complex judgements made by management in preparing the financial statements.

- A20. As a result, the auditor’s views on the subjective aspects of the financial statements may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A19, those charged with governance may be interested in the auditor’s ~~evaluation of the adequacy of disclosures of the estimation uncertainty relating to accounting estimates that give rise to significant risks.~~ views on the degree to which complexity, subjectivity or other inherent risk factors affect the selection or application of the methods, assumptions and data used in making a significant accounting estimate, as well as the auditor’s evaluation of whether management’s point estimate and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework. Open and constructive communication about significant qualitative aspects of the entity’s accounting practices also may include comment on the acceptability of significant accounting practices and on the quality of the disclosures. When applicable, this may include whether a significant accounting practice of the entity relating to accounting estimates is considered by the auditor not to be most appropriate to the particular circumstances of the entity, for example, when an alternative acceptable method for making an accounting estimate would, in the auditor’s judgement, be more appropriate. Appendix 2 identifies matters that may be included in this communication.

...

Specific Requirements in Professional and Ethical Standard 3 (Amended) and Other ISAs (NZ) that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in Professional and Ethical Standard 3 (Amended)⁸ and other ISAs (NZ) that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- Professional and Ethical Standard 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* – paragraph 30(a)
- ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 21, 38(c)(i) and 40-42
- ISA (NZ) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 14, 19 and 22-24
- ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- ISA (NZ) 505, *External Confirmations* – paragraph 9
- ISA (NZ) 510, *Initial Audit Engagements—Opening Balances* – paragraph 7
- ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 36
- ISA (NZ) 550, *Related Parties* – paragraph 27
- ISA (NZ) 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ISA (NZ) 570 (Revised), *Going Concern* – paragraph 25
- ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 49
- ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46
- ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30

⁸ Professional and Ethical Standard 3 (Amended), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12
- ISA (NZ) 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 17—19

Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a), and discussed in paragraphs A19–A20, may include such matters as:

Accounting Policies

...

Accounting Estimates and Related Disclosures

For items for which estimates are significant, issues discussed in ISA 540,⁹ including, for example: Appendix 2 of ISA (NZ) 540 (Revised) includes matters that the auditor may consider communicating with respect to significant qualitative aspects of the entity's accounting practices related to accounting estimates and related disclosures.

- ~~○ How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements.~~
- ~~○ Changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.~~
- ~~○ Whether management's decision to recognize, or to not recognize, the accounting estimates in the financial statements is in accordance with the applicable financial reporting framework.~~
- ~~○ Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates and, if so, why, as well as the outcome of accounting estimates in prior periods.~~
- ~~○ Management's process for making accounting estimates (e.g., when management has used a model), including whether the selected measurement basis for the accounting estimate is in accordance with the applicable financial reporting framework.~~
- ~~○ Whether the significant assumptions used by management in developing the accounting estimate are reasonable.~~
- ~~○ Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.~~
- ~~○ Risks of material misstatement.~~
- ~~○ Indicators of possible management bias.~~

⁹—ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

- ~~○ How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.~~
- ~~○ The adequacy of disclosure of estimation uncertainty in the financial statements.~~

Financial Statement Disclosures

...

ISA (NZ) 500, *Audit Evidence*

Introduction

Scope of this ISA

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.
2. This ISA is applicable to all the audit evidence obtained during the course of the audit. Other ISAs (NZ) deal with specific aspects of the audit (for example, ISA (NZ) 315 (Revised)¹⁰), the audit evidence to be obtained in relation to a particular topic (for example, ISA (NZ) 570 (Revised)¹¹), specific procedures to obtain audit evidence (for example, ISA (NZ) 520¹²), and the evaluation of whether sufficient appropriate audit evidence has been obtained (ISA (NZ) 200¹³ and ISA (NZ) 330¹⁴).

Effective Date

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

Objective

4. The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Definitions

5. For purposes of ~~the~~this ISA (NZ), the following terms have the meanings attributed below:
 - (a) Accounting records – The records of initial accounting entries and supporting records, such as checks and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.

¹⁰ ISA (NZ) 315 (Revised), *“Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.”*

¹¹ ISA (NZ) 570 (Revised), *“Going Concern.”*

¹² ISA (NZ) 520, *“Analytical Procedures.”*

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

¹⁴ ISA (NZ) 330, *“The Auditor's Responses to Assessed Risks.”*

- (b) Appropriateness (of audit evidence) – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.
- (c) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.
- (d) External information source – An external individual or organisation that provides information that has been used by the entity in preparing the financial statements, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organisation acting in the capacity of a management’s expert, service organisation¹⁵, or auditor’s expert¹⁶ the individual or organisation is not considered an external information source with respect to that particular information. (Ref: Para. A1A-A1D)
- (~~e~~) Management’s expert – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.
- (~~f~~) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.

Requirements

Sufficient Appropriate Audit Evidence

6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. A1-A25)

Information to Be Used as Audit Evidence

7. When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source. (Ref: Para. A26–~~A33~~–A34H)
8. If information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary, having regard to the significance of that expert’s work for the auditor’s purposes: (Ref: Para. A35–A37)
 - (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A38-A44)
 - (b) Obtain an understanding of the work of that expert; and (Ref: Para. A45-A48)

¹⁵ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*, paragraph 8

¹⁶ ISA (NZ) 620, *Using the Work of an Auditor’s Expert*, paragraph 6

- (c) Evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion. (Ref: Para. A49)
- 9. When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor's purposes, including, as necessary in the circumstances:
 - (a) Obtaining audit evidence about the accuracy and completeness of the information; and (Ref: Para. A50-A51)
 - (b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. (Ref: Para. A52)

Selecting Items for Testing to Obtain Audit Evidence

- 10. When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. (Ref: Para. A53-A57)

Inconsistency in, or Doubts over Reliability of, Audit Evidence

- 11. If:
 - (a) audit evidence obtained from one source is inconsistent with that obtained from another; or
 - (b) the auditor has doubts over the reliability of information to be used as audit evidence, the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit. (Ref: Para. A58)

Application and Other Explanatory Material

External Information Source (Ref: Para 5(cA))

A1. External information sources may include pricing services, governmental organisations, central banks or recognised stock exchanges. Examples of information that may be obtained from external information sources include:

- Prices and pricing related data;
- Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data;
- Credit history data;
- Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry; and

- Mortality tables used to determine liabilities in the life insurance and pension sectors.*

A2. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organisation provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. Judgement may be required in determining whether the information is suitable for use by a broad range of users, taking into account the ability of the entity to influence the external information source.

A3. An external individual or organisation cannot, in respect of any particular set of information, be both an external information source and a management's expert, or service organisation or auditor's expert.

A4. However, an external individual or organisation may, for example, be acting as a management's expert when providing a particular set of information, but may be acting as an external information source when providing a different set of information. In some circumstances, professional judgement may be needed to determine whether an external individual or organisation is acting as an external information source or as a management's expert with respect to a particular set of information. In other circumstances, the distinction may be clear. For example:

- An external individual or organisation may be providing information about real estate prices that is suitable for use by a broad range of users, for example, information made generally available pertaining to a geographical region, and be determined to be an external information source with respect to that set of information. The same external organisation may also be acting as a management's or auditor's expert in providing commissioned valuations, with respect to the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.
- Some actuarial organisations publish mortality tables for general use which, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organisation may also be a management's expert with respect to different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.
- An external individual or organisation may possess expertise in the application of models to estimate the fair value of securities for which there is no observable market. If the external individual or organisation applies that expertise in making an estimate specifically for the entity and that work is used by management in preparing its financial statements, the external individual or organisation is likely to be a management's expert with respect to that information. If, on the other hand, that external individual or organisation merely provides, to the public, prices or pricing-related data regarding private transactions, and the entity uses that information in its own estimation methods, the external individual or organisation is likely to be an external information source with respect to such information.

* When the conforming amendment becomes effective, this paragraph will become paragraph A1 and all subsequent paragraphs will be renumbered accordingly.

- An external individual or organisation may publish information, suitable for a broad range of users, about risks or conditions in an industry. If used by an entity in preparing its risk disclosures (for example in compliance with IFRS 7¹⁷), such information would ordinarily be considered to be information from an external information source. However, if the same type of information has been specifically commissioned by the entity to use its expertise to develop information about those risks, tailored to the entity's circumstances, the external individual or organisation is likely to be acting as a management's expert.
- An external individual or organisation may apply its expertise in providing information about current and future market trends, which it makes available to, and is suitable for use by, a broad range of users. If used by the entity to help make decisions about assumptions to be used in making accounting estimates, such information is likely to be considered to be information from an external information source. If the same type of information has been commissioned by the entity to address current and future trends relevant to the entity's specific facts and circumstances, the external individual or organisation is likely to be acting as a management's expert.

Sufficient Appropriate Audit Evidence (Ref: Para. 6)

- A5~~1~~. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit¹⁸) or a firm's quality control procedures for client acceptance and continuance. ~~In addition to other sources inside and outside the entity,~~ the entity's accounting records and other sources internal to the entity are an important source of audit evidence. ~~Also, information~~ Information that may be used as audit evidence may have been prepared using the work of a management's expert: or be obtained from an external information source. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence
- A6~~2~~. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance, and analytical procedures, often in some combination, in addition to inquiry. Although inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

¹⁷ New Zealand Equivalent to International Financial Reporting Standards (NZ IFRS) 7 *Financial Instruments: Disclosures*

¹⁸ ISA (NZ) 315 (Revised), paragraph 9

- A73. As explained in ISA (NZ) 200,¹⁹ reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.
- A84. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.
- A95. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.
- A106. ISA (NZ) 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained.²⁰ Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgement. ISA (NZ) 200 contains discussion of such matters as the nature of audit procedures, the timeliness of financial reporting, and the balance between benefit and cost, which are relevant factors when the auditor exercises professional judgement regarding whether sufficient appropriate audit evidence has been obtained.

Sources of Audit Evidence

- A117. Some audit evidence is obtained by performing audit procedures to test the accounting records, for example, through analysis and review, reperforming procedures followed in the financial reporting process, and reconciling related types and applications of the same information. Through the performance of such audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements.
- A128. [Amended by the NZAuASB]
- NZA128.1 More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a representation from those charged with governance.
- A139. Information from sources independent of the entity that the auditor may use as audit evidence may include confirmations from third parties, and information from an external information source, including analysts' reports, and comparable data about competitors (benchmarking data).

¹⁹ ISA (NZ) 200, paragraph 5-

²⁰ ISA (NZ) 330, paragraph 26-

Audit Procedures for Obtaining Audit Evidence

A140. As required by, and explained further in, ISA (NZ) 315 (Revised) and ISA (NZ) 330, audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing:

- (a) Risk assessment procedures; and
- (b) Further audit procedures, which comprise:
 - (i) Tests of controls, when required by the ISA (NZ) or when the auditor has chosen to do so; and
 - (ii) Substantive procedures, including tests of details and substantive analytical procedures.

A151. The audit procedures described in paragraphs A14-A25 below may be used as risk assessment procedures, tests of controls or substantive procedures, depending on the context in which they are applied by the auditor. As explained in ISA (NZ) 330, audit evidence obtained from previous audits may, in certain circumstances, provide appropriate audit evidence where the auditor performs audit procedures to establish its continuing relevance.²¹

A162. The nature and timing of the audit procedures to be used may be affected by the fact that some of the accounting data and other information may be available only in electronic form or only at certain points or periods in time. For example, source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce, or may be discarded after scanning when an entity uses image processing systems to facilitate storage and reference.

A173. Certain electronic information may not be retrievable after a specified period of time, for example, if files are changed and if backup files do not exist. Accordingly, the auditor may find it necessary as a result of an entity's data retention policies to request retention of some information for the auditor's review or to perform audit procedures at a time when the information is available.

Inspection

A184. Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of authorisation.

A195. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value. In addition, inspecting an executed contract may provide audit evidence relevant to the entity's application of accounting policies, such as revenue recognition.

²¹ ISA (NZ) 330, paragraph A35.

~~A20~~16. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items may accompany the observation of inventory counting.

Observation

~~A21~~17. Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of control activities. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. See ISA (NZ) 501 for further guidance on observation of the counting of inventory.²²

External Confirmation

~~A22~~18. An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are. External confirmation procedures also are used to obtain audit evidence about the absence of certain conditions, for example, the absence of a "side agreement" that may influence revenue recognition. See ISA (NZ) 505 for further guidance.²³

Recalculation

~~A23~~19. Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

Reperformance

~~A24~~20. Repformance involves the auditor's independent execution of procedures or controls that were originally performed as part of the entity's internal control.

Analytical Procedures

~~A25~~1. Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. See ISA (NZ) 520 for further guidance.

²² ISA (NZ) 501, "Audit Evidence—Specific Considerations for Selected Items"

²³ ISA (NZ) 505, "External Confirmations"

Inquiry

A262. Inquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. Inquiry is used extensively throughout the audit in addition to other audit procedures. Inquiries may range from formal written inquiries to informal oral inquiries. Evaluating responses to inquiries is an integral part of the inquiry process.

A273. Responses to inquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained, for example, information regarding the possibility of management override of controls. In some cases, responses to inquiries provide a basis for the auditor to modify or perform additional audit procedures.

A284. Although corroboration of evidence obtained through inquiry is often of particular importance, in the case of inquiries about management intent, the information available to support management's intent may be limited. In these cases, understanding management's past history of carrying out its stated intentions, management's stated reasons for choosing a particular course of action, and management's ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through inquiry.

A295. [Amended by the NZAuASB]

NZA295.1 In respect of some matters, the auditor may consider it necessary to obtain written representations from those charged with governance to confirm responses to oral inquiries. See ISA 580 for further guidance.²⁴

Information to Be Used as Audit Evidence

Relevance and Reliability (Ref: Para. 7)

A3026. As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources such as, for example, previous audits, in certain circumstances, a firm's quality control procedures for client acceptance and continuance and complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

Relevance

A3127. Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. The relevance of information to be used as audit evidence may be affected by the direction of testing. For example, if the purpose of an audit procedure is to test for overstatement in the existence or valuation of accounts payable, testing the recorded accounts payable may be a relevant audit procedure. On the other hand, when testing for understatement in the existence or valuation of accounts payable, testing the recorded accounts payable would not be relevant, but testing

²⁴ ISA (NZ) 580, "Written Representations"

such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may be relevant.

A328. A given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not others. For example, inspection of documents related to the collection of receivables after the period end may provide audit evidence regarding existence and valuation, but not necessarily cutoff. Similarly, obtaining audit evidence regarding a particular assertion, for example, the existence of inventory, is not a substitute for obtaining audit evidence regarding another assertion, for example, the valuation of that inventory. On the other hand, audit evidence from different sources or of a different nature may often be relevant to the same assertion.

A329. Tests of controls are designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. Designing tests of controls to obtain relevant audit evidence includes identifying conditions (characteristics or attributes) that indicate performance of a control, and deviation conditions which indicate departures from adequate performance. The presence or absence of those conditions can then be tested by the auditor.

A340. Substantive procedures are designed to detect material misstatements at the assertion level. They comprise tests of details and substantive analytical procedures. Designing substantive procedures includes identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.

Reliability

A351. The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalisations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from an source independent of the entity ~~external source of the entity~~ may not be reliable if the source is not knowledgeable, or a management's expert may lack objectivity. While recognising that exceptions may exist, the following generalisations about the reliability of audit evidence may be useful:

- The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
- The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.
- Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters

discussed).

- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.

A362. ISA (NZ) 520 provides further guidance regarding the reliability of data used for purposes of designing analytical procedures as substantive procedures.²⁵

A373. ISA (NZ) 240 deals with circumstances where the auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor.²⁶

A384. ISA (NZ) 250 (Revised)²⁷ provides further guidance with respect to the auditor complying with any additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's identified or suspected non-compliance with laws and regulations that may provide further information that is relevant to the auditor's work in accordance with ISAs (NZ) and evaluating the implications of such non-compliance in relation to other aspects of the audit.

External Information Sources

A39. The auditor is required by paragraph 7 to consider the relevance and reliability of information obtained from an external information source that is to be used as audit evidence, regardless of whether that information has been used by the entity in preparing the financial statements or obtained by the auditor. For information obtained from an external information source, that consideration may, in certain cases, include audit evidence about the external information source or the preparation of the information by the external information source, obtained through designing and performing further audit procedures in accordance with ISA (NZ) 330 or, where applicable, ISA (NZ) 540 (Revised).²⁸

A40. Obtaining an understanding of why management or, when applicable, a management's expert uses an external information source, and how the relevance and reliability of the information was considered (including its accuracy and completeness), may help to inform the auditor's consideration of the relevance and reliability of that information.

A41. The following factors may be important when considering the relevance and reliability of information obtained from an external information source, including its accuracy and completeness, taking into account that some of these factors may only be relevant when the information has been used by management in preparing the financial statements or has been obtained by the auditor:

- The nature and authority of the external information source. For example, a central

²⁵ ISA (NZ) 520, paragraph 5(a)-

²⁶ ISA (NZ) 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," paragraph 1413.

²⁷ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 9

²⁸ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Disclosures*

bank or government statistics office with a legislative mandate to provide industry information to the public is likely to be an authority for certain types of information;

- The ability to influence the information obtained, through relationships between the entity and the information source;
- The competence and reputation of the external information source with respect to the information, including whether, in the auditor's professional judgement, the information is routinely provided by a source with a track record of providing reliable information;
- Past experience of the auditor with the reliability of the information provided by the external information source;
- Evidence of general market acceptance by users of the relevance and/or reliability of information from an external information source for a similar purpose to that for which the information has been used by management or the auditor;
- Whether the entity has in place controls to address the relevance and reliability of the information obtained and used;
- Whether the external information source accumulates overall market information or engages directly in "setting" market transactions;
- Whether the information is suitable for use in the manner in which it is being used and, if applicable, was developed taking into account the applicable financial reporting framework;
- Alternative information that may contradict the information used;
- The nature and extent of disclaimers or other restrictive language relating to the information obtained;
- Information about the methods used in preparing the information, how the methods are being applied including, where applicable, how models have been used in such application, and the controls over the methods; and
- When available, information relevant to considering the appropriateness of assumptions and other data applied by the external information sources in developing the information obtained.

A42. The nature and extent of the auditor's consideration takes into account the assessed risks of material misstatement at the assertion level to which the use of the external information is relevant, the degree to which the use of that information is relevant to the reasons for the assessed risks of material misstatement and the possibility that the information from the external information source may not be reliable (for example, whether it is from a credible source). Based on the auditor's consideration of the matters described in paragraph A33B, the auditor may determine that further understanding of the entity and its environment, including its internal control, is needed, in accordance with ISA (NZ) 315, or that further audit procedures, in accordance with ISA (NZ) 330²⁹, and ISA (NZ) 540 (Revised)³⁰ when

²⁹ ISA (NZ) 330, paragraph 6

³⁰ ISA (NZ) 540 (Revised), paragraph 29

applicable, are appropriate in the circumstances, to respond to the assessed risks of material misstatement related to the use of information from an external information source. Such procedures may include:

- Performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source.
- When relevant to considering management's use of an external information source, obtaining an understanding of controls management has in place to consider the reliability of the information from external information sources, and potentially testing the operating effectiveness of such controls.
- Performing procedures to obtain information from the external information source to understand its processes, techniques, and assumptions, for the purposes of identifying, understanding and, when relevant, testing the operating effectiveness of its controls.

A43. In some situations, there may be only one provider of certain information, for example, information from a central bank or government, such as an inflation rate, or a single recognised industry body. In such cases, the auditor's determination of the nature and extent of audit procedures that may be appropriate in the circumstances is influenced by the nature and credibility of the source of the information, the assessed risks of material misstatement to which that external information is relevant, and the degree to which the use of that information is relevant to the reasons for the assessed risk of material misstatement. For example, when the information is from a credible authoritative source, the extent of the auditor's further audit procedures may be less extensive, such as corroborating the information to the source's website or published information. In other cases, if a source is not assessed as credible, the auditor may determine that more extensive procedures are appropriate and, in the absence of any alternative independent information source against which to compare, may consider whether performing procedures to obtain information from the external information source, when practical, is appropriate in order to obtain sufficient appropriate audit evidence.

A44. When the auditor does not have a sufficient basis with which to consider the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. Any imposed limitation on scope is evaluated in accordance with the requirements of ISA (NZ) 705 (Revised).³¹

Reliability of Information Produced by a Management's Expert (Ref: Para. 8)

A435. The preparation of an entity's financial statements may require expertise in a field other than accounting or auditing, such as actuarial calculations, valuations, or engineering data. The entity may employ or engage experts in these fields to obtain the needed expertise to prepare the financial statements. Failure to do so when such expertise is necessary increases the risks of material misstatement.

A346. When information to be used as audit evidence has been prepared using the work of a management's expert, the requirement in paragraph 8 of this ISA (NZ) applies. For example,

³¹ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, Paragraph 13

an individual or organisation may possess expertise in the application of models to estimate the fair value of securities for which there is no observable market. If the individual or organisation applies that expertise in making an estimate which the entity uses in preparing its financial statements, the individual or organisation is a management's expert and paragraph 8 applies. If, on the other hand, that individual or organisation merely provides price data regarding private transactions not otherwise available to the entity which the entity uses in its own estimation methods, such information, if used as audit evidence, is subject to paragraph 7 of this ISA, ~~but is~~ being information from an external information source and not the use of a management's expert by the entity.

A347. The nature, timing and extent of audit procedures in relation to the requirement in paragraph 8 of this ISA, may be affected by such matters as:

- The nature and complexity of the matter to which the management's expert relates.
- The risks of material misstatement in the matter.
- The availability of alternative sources of audit evidence.
- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- The nature and extent of any controls within the entity over the management's expert's work.
- The auditor's knowledge and experience of the management's expert's field of expertise.
- The auditor's previous experience of the work of that expert.

The Competence, Capabilities and Objectivity of a Management's Expert (Ref: Para. 8(a))

A348. Competence relates to the nature and level of expertise of the management's expert. Capability relates the ability of the management's expert to exercise that competence in the circumstances. Factors that influence capability may include, for example, geographic location, and the availability of time and resources. Objectivity relates to the possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgement of the management's expert. The competence, capabilities and objectivity of a management's expert, and any controls within the entity over that expert's work, are important factors in relation to the reliability of any information produced by a management's expert.

A349. Information regarding the competence, capabilities and objectivity of a management's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.

- Discussions with that expert.
- Discussions with others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- An auditor's expert, if any, who assists the auditor in obtaining sufficient appropriate audit evidence with respect to information produced by the management's expert.

A450. Matters relevant to evaluating the competence, capabilities and objectivity of a management's expert include whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.

A451. Other matters that may be relevant include:

- The relevance of the management's expert's competence to the matter for which that expert's work will be used, including any areas of specialty within that expert's field. For example, a particular actuary may specialise in property and casualty insurance, but have limited expertise regarding pension calculations.
- The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models where applicable, that are consistent with the applicable financial reporting framework.
- Whether unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary to reconsider the initial evaluation of the competence, capabilities and objectivity of the management's expert as the audit progresses.

A452. A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards may reduce such threats, and may be created either by external structures (for example, the management's expert's profession, legislation or regulation), or by the management's expert's work environment (for example, quality control policies and procedures).

A453. Although safeguards cannot eliminate all threats to a management's expert's objectivity, threats such as intimidation threats may be of less significance to an expert engaged by the entity than to an expert employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.

A454. When evaluating the objectivity of an expert engaged by the entity, it may be relevant to discuss with management and that expert any interests and relationships that may create threats to the expert's objectivity, and any applicable safeguards, including any professional requirements that apply to the expert; and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include:

- Financial interests.
- Business and personal relationships.
- Provision of other services.

Obtaining an Understanding of the Work of the Management's Expert (Ref: Para. 8(b))

A455. An understanding of the work of the management's expert includes an understanding of the relevant field of expertise. An understanding of the relevant field of expertise may be obtained in conjunction with the auditor's determination of whether the auditor has the expertise to evaluate the work of the management's expert, or whether the auditor needs an auditor's expert for this purpose.³²

A456. Aspects of the management's expert's field relevant to the auditor's understanding may include:

- Whether that expert's field has areas of specialty within it that are relevant to the audit.
- Whether any professional or other standards, and regulatory or legal requirements apply.
- What assumptions and methods are used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes.
- The nature of internal and external data or information the management's expert uses.

A457. In the case of a management's expert engaged by the entity, there will ordinarily be an engagement letter or other written form of agreement between the entity and that expert. Evaluating that agreement when obtaining an understanding of the work of the management's expert may assist the auditor in determining the appropriateness of the following for the auditor's purposes:

- The nature, scope and objectives of that expert's work;
- The respective roles and responsibilities of management and that expert; and
- The nature, timing and extent of communication between management and that expert, including the form of any report to be provided by that expert.

A458. In the case of a management's expert employed by the entity, it is less likely there will be a written agreement of this kind. Inquiry of the expert and other members of management may be the most appropriate way for the auditor to obtain the necessary understanding

Evaluating the Appropriateness of the Management's Expert's Work (Ref: Para. 8(c))

A459. Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;

³² ISA (NZ) 620, "Using the Work of an Auditor's Expert," paragraph 7.

- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods; ~~and~~
- If that expert's work involves significant use of source data the relevance, completeness, and accuracy of that source data; and
- If that expert's work involves the use of information from an external information source, the relevance and reliability of that information.

Information Produced by the Entity and Used for the Auditor's Purposes (Ref: Para. 9(a)–(b))

A560. In order for the auditor to obtain reliable audit evidence, information produced by the entity that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of auditing revenue by applying standard prices to records of sales volume is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (for example, payments) for a certain characteristic (for example, authorisation), the results of the test will be less reliable if the population from which items are selected for testing is not complete.

A561. Obtaining audit evidence about the accuracy and completeness of such information may be performed concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.

A562. In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to make use of the entity's performance measures for the purpose of analytical procedures, or to make use of the entity's information produced for monitoring activities, such as reports of the internal audit function. In such cases, the appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Selecting Items for Testing to Obtain Audit Evidence (Ref: Para. 10)

A563. An effective test provides appropriate audit evidence to an extent that, taken with other audit evidence obtained or to be obtained, will be sufficient for the auditor's purposes. In selecting items for testing, the auditor is required by paragraph 7 to determine the relevance and reliability of information to be used as audit evidence; the other aspect of effectiveness (sufficiency) is an important consideration in selecting items to test. The means available to the auditor for selecting items for testing are:

- (a) Selecting all items (100% examination);
- (b) Selecting specific items; and
- (c) Audit sampling.

The application of any one or combination of these means may be appropriate depending on the particular circumstances, for example, the risks of material misstatement related to the assertion being tested, and the practicality and efficiency of the different means.

Selecting All Items

A564. The auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details. 100% examination may be appropriate when, for example:

- The population constitutes a small number of large value items;
- There is a significant risk and other means do not provide sufficient appropriate audit evidence; or
- The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

Selecting Specific Items

A565. The auditor may decide to select specific items from a population. In making this decision, factors that may be relevant include the auditor's understanding of the entity, the assessed risks of material misstatement, and the characteristics of the population being tested. The judgemental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- *High value or key items.* The auditor may decide to select specific items within a population because they are of high value, or exhibit some other characteristic, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.
- *All items over a certain amount.* The auditor may decide to examine items whose recorded values exceed a certain amount so as to verify a large proportion of the total amount of a class of transactions or account balance.
- *Items to obtain information.* The auditor may examine items to obtain information about matters such as the nature of the entity, or the nature of transactions.

A566. While selective examination of specific items from a class of transactions or account balance will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide audit evidence concerning the remainder of the population.

Audit Sampling

A567. Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. Audit sampling is discussed in ISA (NZ) 530.³³

³³ ISA (NZ) 530, "Audit Sampling."²²

Inconsistency in, or Doubts over Reliability of, Audit Evidence (Ref: Para. 11)

A568. Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, responses to inquiries of management, internal auditors, and others are inconsistent, or when responses to inquiries of those charged with governance made to corroborate the responses to inquiries of management are inconsistent with the response by management. ISA (NZ) 230 includes a specific documentation requirement if the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter.³⁴

³⁴ ISA (NZ) 230, "*Audit Documentation*," paragraph 11.

Appendix 1

(Ref: Para. 2)

List of ISAs (NZ) Containing Requirements for Written Representations

This appendix identifies paragraphs in other ISAs that require subject-matter specific written representations. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA (NZ) 240, *“The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements”* – paragraph 39
- ISA (NZ) 250, *“Consideration of Laws and Regulations in an Audit of Financial Statements”* – paragraph 16
- ISA (NZ) 450, *“Evaluation of Misstatements Identified during the Audit”* – paragraph 14
- ISA (NZ) 501, *“Audit Evidence—Specific Considerations for Selected Items”* – paragraph 12
- ISA (NZ) 540 (Revised), *“Auditing Accounting Estimates, ~~Including Fair Value Accounting Estimates,~~ and Related Disclosures”* – paragraph ~~22~~35
- ISA (NZ) 550, *“Related Parties”* – paragraph 26
- ISA (NZ) 560, *“Subsequent Events”* – paragraph 9
- ISA (NZ) 570 (Revised), *“Going Concern”* – paragraph 16(e)
- ISA (NZ) 710, *“Comparative Information—Corresponding Figures and Comparative Financial Statements”* – paragraph 9
- ISA (NZ) 720 (Revised), *“The Auditor’s Responsibilities Relating to Other Information”* – paragraph 13(c)

Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other ISAs (NZ). It is assumed in this illustration that the applicable financial reporting framework is New Zealand equivalents to International Financial Reporting Standards; the requirement of ISA (NZ) 570 (Revised)³⁵ to obtain a written representation is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 20XX³⁶ for the purpose of expressing an opinion as to whether the financial statements comply with New Zealand equivalents to International Financial Reporting Standards and give a true and fair view of the financial position of ABC Limited as at December 31, 20XX and of the results of its operations and its cash flows for the year then ended.

We confirm that (*to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves*):

Financial Statements

- We have fulfilled our responsibilities on behalf of the entity, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards; in particular the financial statements are fairly presented (*or give a true and fair view*) in accordance therewith.
- ~~Significant~~ The methods, the data, and the significant assumptions used by us in making accounting estimates, including those measured at fair value, and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework. (ISA (NZ) 540 (Revised))
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards. (ISA (NZ) 550)

...

³⁵ ISA (NZ) 570 (Revised), “*Going Concern*.”

³⁶ Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor’s report.

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

Requirements

...

Forming an Opinion on the Financial Statements

13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
- (a) The financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner; (Ref: Para. A4)
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates and related disclosures made by management are reasonable;
 - (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:
 - The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterised.
 - The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. (Ref: Para. A5)
 - (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A6)
 - (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Requirements

...

Determining Key Audit Matters

9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18)
- (a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA (NZ) 315 (Revised).³⁷ (Ref: Para. A19–A22)
 - (b) Significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that ~~have~~ are subject to a high degree of estimation uncertainty. (Ref: Para. A23–A24)
 - (c) The effect on the audit of significant events or transactions that occurred during the period. (Ref: Para. A25–A26)

...

Application and Other Explanatory Material

Significant Auditor Judgements Relating to Areas in the Financial Statements that Involved Significant Management Judgement, Including Accounting Estimates that ~~Have Been Identified as Having~~ Are Subject to a High Degree of Estimation Uncertainty (Ref: Para. 9(b))

- A23. ISA (NZ) 260 (Revised) requires the auditor to communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.³⁸ In many cases, this relates to critical accounting estimates and related disclosures, which are likely to be areas of significant auditor attention, and also may be identified as significant risks.
- A24. However, users of the financial statements have highlighted their interest in accounting estimates that ~~have~~ are subject to a high degree of estimation uncertainty (~~see in accordance with~~ ISA (NZ) 540 (Revised)³⁹) that may have not been determined to be significant risks. Among other things, such estimates are highly dependent on management judgement and are often the most complex areas of the financial statements,

³⁷ ISA (NZ) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

³⁸ ISA (NZ) 260 (Revised), paragraph 16(a).

³⁹ See paragraphs ~~15–14~~ of ISA (NZ) 540 (Revised), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

and may require the involvement of both a management's expert and an auditor's expert. Users have also highlighted that accounting policies that have a significant effect on the financial statements (and significant changes to those policies) are relevant to their understanding of the financial statements, especially in circumstances where an entity's practices are not consistent with others in its industry.

XRB Au1, *Application of Auditing and Assurance Standards*

In Appendix 2, ISA (NZ) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, is amended to reflect the issue of ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

C: EFFECTIVE DATE

An auditor that is required to apply the amendments in this Standard is required to apply it for audits of financial statements for periods beginning on or after 15 December 2019. However, early adoption is permitted.

Memorandum

Date: 24 October 2018

To: Graeme Mitchell, Chairman XRB Board

From: Robert Buchanan, Chairman NZAuASB

Subject: Certificate Signing Memo: International Standard on Auditing (New Zealand) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, and *Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements* for issue in New Zealand

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue International Standard on Auditing (New Zealand) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, and *Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements* in New Zealand.

Background

International process

2. The IAASB consultations in developing its Strategy for 2015-2019¹ and related Work Plan for 2015-2016² indicated a need for the International Auditing and Assurance Standards Board (IAASB) to take action to address issues relevant to the application of ISA 540³ in audits of financial institutions, as well as more broadly.
3. Since early 2015, the IAASB has undertaken outreach activities to identify issues regarding the auditing of accounting estimates for financial institutions and other entities. The outreach indicated that regulators and auditors of financial institutions were of the view that the IAASB should focus on the issues for audits of financial institutions arising from IFRS 9⁴, ahead of its effective date for financial statements for annual periods beginning on or after 1 January 2018. IFRS 9 adopts expected credit loss

¹ http://www.ifac.org/system/files/publications/files/IAASB-Strategy-2015-2019_0.pdf

² <http://www.ifac.org/system/files/publications/files/IAASB-Work-Plan-2015-2016.pdf>

³ International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

⁴ IFRS 9, *Financial Instruments*

models for loan loss provisions, which fundamentally changes the way that banks and other entities account for their loan assets and other credit exposures.

4. After listening to key stakeholders, the IAASB concluded that most, if not all, of the issues identified with respect to expected credit losses would be equally relevant when auditor other complex accounting estimates. Accordingly, the IAASB concluded that a holistic revision of ISA 540 should be undertaken.
5. The IAASB issued for public comments its exposure draft (ED) of proposed ISA 540 (Revised), *Auditing Accounting Estimates, including Related Disclosures*, in April 2017 with comments due on 1 August 2017.
6. The ED required auditors to sharpen their focus on risks of material misstatements arising from accounting estimates, and to address those risks with more granular audit requirements. Specifically, the ED:
 - Enhanced requirements for risk assessment procedures to include specific facts related to accounting estimates, namely complexity, judgement, and estimation uncertainty;
 - Set a more detailed expectation for the auditor's response to identified risks, including augmenting the auditor's application of professional scepticism; and
 - Was scalable regardless of the size or sector of the business or audit firm.
7. Sixty-nine comment letters were received by the IAASB on its ED, including submissions from the majority of the monitoring group members. While there was much support for the IAASB's objectives in revising ISA 540, respondents raised several significant concerns with the proposals including:
 - Clarity/readability/operability of the proposed standard; complex wording and sentence structure, volume of application material.
 - Connectivity of proposed ISA 540 to other standards, for example, ISA 315 (Revised), ISA 330 and ISA 500 can be enhanced.
 - Focus on complex accounting estimates, e.g., IFRS 9. Proposed ISA 540 is too complicated for simple accounting estimates.
 - Support for risk factors (complexity, judgement and estimation uncertainty) but concerns about how they are applied in the risk assessment process and response;

the effect of interrelationships between the factors; structuring the work effort by risk factor is overly complex and may consequently result in inconsistencies, repetition and inefficiencies.

- Perceived difficulties with operationalising the low inherent risk threshold
 - Overly prescriptive nature of the risk assessment procedures for simple accounting estimates.
 - Use of point estimates and ranges – when management does not adequately address estimation uncertainty, the auditor should not be responsible for developing a range; more guidance is needed when the range is multiples of materiality.
8. The IAASB discussed significant comments and related task force proposals at its September, October and December 2017 and January (conference call), March, April (conference call) and June 2018 meetings.
9. In response to the comments received from all respondents, the following significant amendments to the ED and related conforming amendments were made:
- Removed the threshold of low/not low. Reinforced scalability by reinforcing the existing concept of the spectrum of risk and drawing upon the existing material in ISA 315 (Revised) and ISA 330.
 - Aligned the terms used for the risk factors with those of the U.S. Public Company Accounting Oversight Board's proposals – estimation uncertainty, complexity, subjectivity.
 - Revised the structure of the standard, basing the work effort requirements around the testing strategies and methods, data and assumptions.
 - Give more prominence to estimation uncertainty in identifying and assessing the risks of material misstatement.
 - Enhancing significantly the introductory material, including key concepts and the description of the spectrum of risk.
 - Removing superfluous and gratuitous application material.
10. The IAASB also amended the effective date from that proposed in the ED. It concluded that an effective date for periods beginning on or after 15 December 2019 would be

more appropriate given that ISA 540 (Revised) affects the planning and risk assessment activities for an audit; firms need time to update their methodologies and audit tools, develop training materials and train staff; smaller firms rely on external providers; and some national standard setters need time to translate the standard and develop supplemental implementation material and in some cases expose the standard before it will be effective in their jurisdiction. Early implementation is permitted.

11. In June 2018, the IAASB approved for issue, subject to approval by the Public Interest Oversight Board (PIOB) that due process has been followed, ISA 540 (Revised) and related conforming amendments. The revised ISA will be effective for audits of financial reporting periods beginning on or after 15 December 2019. The final standard, subject to PIOB approval, is anticipated in October 2018.
12. The IAASB determined that the changes to the ED did not meet the requirements for re-exposure.

Domestic process

13. The NZAuASB sought feedback from constituents on the IAASB's ED through round table discussions held on May 30 in Auckland and June 1 in Wellington. Participants at the combined round table discussions represented the following: OAG, CAANZ, FMA, PWC, EY, Grant Thornton, and AUT. A formal submission was also received from the OAG.
14. The NZAuASB's submission to the IAASB was prepared based on feedback received from the round table discussions, the Board at its June 2017 meeting, and from the submission received.
15. The NZAuASB did not identify any compelling reason amendments to include in ISA (NZ) 540. The usual New Zealand terminology and spelling changes were made to the international standard.

Australian process

16. The AUASB approved the issue of Proposed ASA 540 *Auditing Accounting Estimates and Related Disclosures* and related conforming amendments at its 31 July 2018 meeting held via teleconference.
17. One of the key issues that the AUASB has centres around the expectation of the auditor in relation to the point estimate/range calculation. The AUASB is concerned regarding the shift of onus from preparer to auditor where the preparer has not fully understood

or taken into account estimation uncertainty. To this end, the AUASB has now sought feedback on these particular requirements in its invitation to comment. [Verbal update to be provided to Board]

18. No compelling reason amendments have been proposed by the AUASB.

Due process

19. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

Consistency with XRB Financial Reporting Strategy

20. The adoption of International Standard on Auditing (New Zealand) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, and *Conforming Amendments to ISAs (NZ) and Other Pronouncements* is consistent with one of the key strategic objectives set by the XRB Board for the NZAuASB to adopt international auditing and assurance standards, as applying in New Zealand unless there are compelling reasons not to.

Other matters

21. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

Recommendation

22. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

International Standard on Auditing (New Zealand) 250 (Revised), Auditing Accounting Estimates and Related Disclosures

Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements

Robert Buchanan
Chair NZAuASB

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1

Meeting date: 24 October 2018

Subject: Emerging forms of External Reporting (EER) roundtable preparation

Date: 11 October 2018

Prepared by: Misha Pieters

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To:

- Note plans for the upcoming IAASB roundtables on EER to be held in Auckland on the 30th of October
- Provide feedback on developing guidance to raise at the roundtable discussions.

Background

1. The IAASB's EER Assurance Task Force is planning a series of global roundtable discussions to help shape the future of assurance over EER. Seven events are planned around the world, including one in Auckland on the 30th of October and one in Sydney on the 2nd of November.
2. The IAASB has identified ten key challenges to cover in the guidance. The NZAuASB has discussed many of these challenges in developing its exposure draft on the Audit of Service Information. It is also collaborating closely with the Australian Auditing and Assurance Standards Board (AUASB) on this topic.
3. The guidance is being developed in two stages and at this stage feedback is sought on the following key challenges:
 - Evaluating the Suitability of Criteria
 - Applying Materiality
 - Building Assertions
 - Maturity in Governance & Internal Control
 - Addressing Narrative and Future-Oriented Information
4. The draft guidance is structured in two sections:
 - Section 1 – Guidance for assurance practitioners in applying ISAE 3000 (Revised) to EER

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- Section 2 – Background and contextual information (this includes information about the role of the report preparer)
5. A draft of the guidance was discussed at the September meeting of the IAASB. This draft is included in agenda 8.3. The IAASB received feedback on the draft as summarised in agenda item 2.11. Feedback was sought from the XRAP at its September meeting. A summary of the feedback we heard from XRAP is attached at agenda item 8.4, and has been circulated previously.

Matters for consideration

6. The EER Task Force has prepared some short videos to introduce the challenges. These can be viewed through the link in agenda item 8.2. The Board is asked to provide feedback on the developing draft, and other matters to raise at the roundtable discussions.

Material Presented

Agenda item 8.1	Board Meeting Summary Paper
Agenda item 8.2	EER Discussion Event – Auckland briefing paper
Agenda item 8.3	Developing guidance by the IAASB EER Taskforce from IAASB September agenda material
Agenda item 8.4	Feedback from XRAP

EER ASSURANCE DISCUSSION EVENTS 2018

Auckland

Event details

Date: October 30, 2018

Time: 10:00 am – 1:00 pm

Venue: Heritage Hotel, 35 Hobson Street,
Auckland

Please arrive in time to be seated for the event
to begin at 10:00 am.

Programme

09:45 Registration opens

10:00 Event begins

11:30 15-minute break

1:00 Event finishes

The event will be structured around the
discussion topics and example questions listed
on page 2.

Participant preparation

You are kindly requested to watch a [series of short videos](#) in advance of the event which
introduces EER and the IAASB's project.

For those who are interested, a [draft of the IAASB's guidance](#) developed so far is available.
It will not be assumed at the discussion events
that all participants will have read this.

Host

The event will be hosted by Lyn Provost, IAASB
member and member of the EER Task Force.

Lyn was the Controller and Auditor General of
New Zealand from 2009 to 2017. She is a
Chartered Accountant (FCA) and holds a
Bachelor of Commerce and Administration.

She has held positions in private sector auditing
firms in London and South Africa, and senior
public sector roles in the State Services
Commission and Archives New Zealand. Lyn
was Deputy Commissioner of New Zealand
Police for 8 years.

Lyn was the audit director on the world's first set
of accrual financial statements produced by a
government and has devoted herself to
improving public management and auditing in
the public sector both in New Zealand and
internationally.

Other information

We will be recording the event to assist with
note-taking.

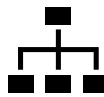
Discussion Topics

The extent of assurance over EER



1. What is the extent of assurance over EER in your region?
 - a) What types of entity? What types of reporting?
 - b) What types of assurance engagement are undertaken?
2. How strong is the demand for assurance and where does this demand come from?

Governance & Internal Control



3. How mature are the systems of internal control and governance of entities producing EER reports in your experience?
4. How important to users of the reports is the entity having a good system of internal control?
5. How straightforward is it to understand and determine whether the pre-conditions for an assurance engagement are present?

Criteria



6. How widespread is the use of the major frameworks such as those produced by GRI, SASB, IIRC etc or are entities developing their own criteria?
7. How do you prepare a report that has suitable criteria to align the report's content with the needs of users?
8. What are the things you see in reports resulting from criteria not being suitable which are an issue for undertaking assurance or using these reports? (e.g. information being not relevant, or not understandable, or not neutral).
9. Who should be responsible for making criteria suitable? Preparers? Pressure from investors/users/stakeholders? Assurance practitioners?

Materiality



10. How does the materiality process for preparers and practitioners in the guidance compare with your experience?
11. To what extent would the model of considering 'impact' and 'interest to intended users' be consistent with your experience or the principles used in reporting frameworks to consider materiality?
12. Can it be assumed that users will ignore irrelevant and immaterial information which a preparer still chooses to include in their report?

Narrative & Future-Oriented Information



13. What assertions in narrative and future-oriented information would an assurance practitioner need to address?
14. How would you expect a practitioner to approach assuring this type of information?

Limited & Reasonable Assurance



15. To what extent are the similarities and differences between reasonable and limited assurance understood by preparers, users and investors?



International Auditing
and Assurance
Standards Board

Meeting: IAASB
Meeting Location: New York, USA
Meeting Date: September 17-21, 2018

Agenda Item

7-A

EER Assurance – Draft Guidance

The following is a draft of the IAEPN being developed by the EER Task Force as at August 31, 2018.

International Assurance Engagement Practice Note [XXXX]

Addressing Challenges in the Application of ISAE 3000 (Revised) to EER

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Introduction

Background

1. At the date of this IAEPN, entities are increasingly producing reports which include non-financial information that go beyond the traditional (financial statement) focus on the entity's financial position, financial performance and impact on its financial resources. The IAASB refers to these as 'emerging forms of external reporting' (EER).
2. EER encapsulates many different forms of reporting, including, but not limited to, integrated reporting, sustainability reporting and other reporting about environmental, social and governance matters. Such reports may be prepared under legislative or regulatory requirements and established frameworks, standards and guidance issued by international or national standard setters and other bodies.
3. The IAASB issued a discussion paper in 2016 suggesting Ten Key Challenges for Assurance Engagements over EER. Respondents to the discussion paper broadly agreed with the assessment of the challenges. There was also broad agreement with the proposal to develop guidance for practitioners in addressing the challenges when applying ISAE 3000 (Revised) ("the standard") when undertaking assurance engagements over EER. The scope of this IAEPN is therefore to provide guidance addressing the Ten Key Challenges and respond to the feedback to the discussion paper. The challenges are listed in Appendix 1.

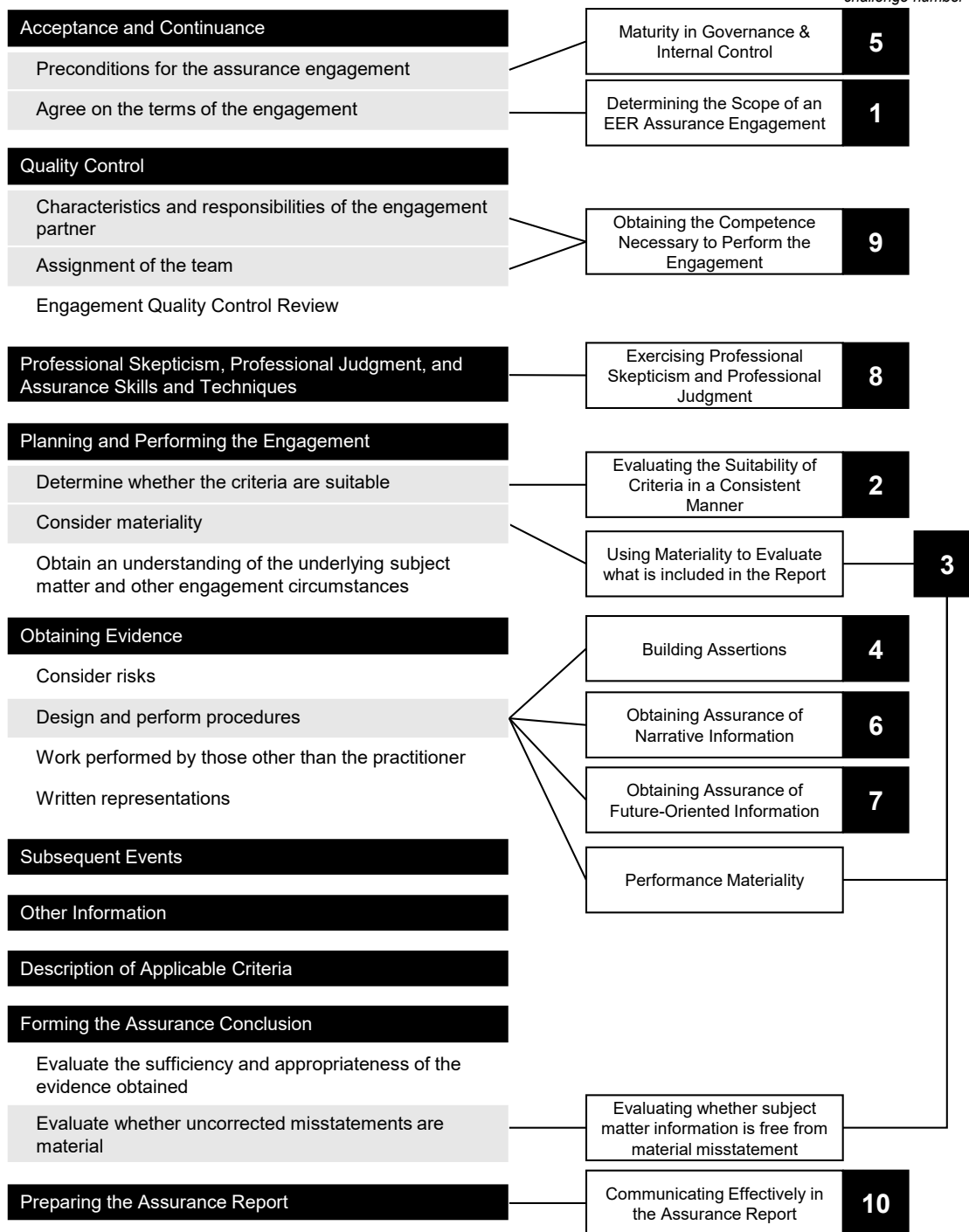
Use of this IAEPN

4. The guidance for practitioners is in Section I, arranged by challenge and the sections of the standard. Since ISAE 3000 (Revised) is not a subject matter specific standard, this IAEPN also includes background, explanatory and contextual information relevant to EER and related assurance engagements in Section II.

ISAE 3000 (Revised) Requirements

Contents of this IAEPN

*Discussion Paper
challenge number*



- As non-authoritative guidance, this IAEPN does not introduce any further mandatory requirements on the practitioner beyond those in ISAE 3000 (Revised). Similarly, none of the contents of this IAEPN remove or change any of the requirements in ISAE 3000 (Revised).

6. Prior to carrying out any assurance engagement in accordance with ISAE 3000 (Revised), the practitioner is required to undertake appropriate acceptance and continuance procedures. These include confirming that the preconditions for the engagement are present¹ (many of which are discussed further in this IAEPN) and that the practitioner has no reason to believe the relevant ethical requirements, including independence, will not be satisfied.
7. The practitioner is also required to be satisfied that those who are to perform the engagement collectively have the appropriate competence and capabilities². Carrying out assurance engagements typically requires significant professional judgment and the broad range of subject matter in EER may mean specialized skills and experience are required. One area in particular is the need to plan and perform the engagement with sufficient professional skepticism given the risks arising from assuring typically new and maturing types of external reporting.

Refer to paragraphs 56 to 57 for further guidance [to be developed in phase 2].

8. This IAEPN has been written in the context of general purpose reporting frameworks, but may also be useful, as appropriate in the circumstances, in the context of special purpose reporting frameworks³.
9. ISAE 3000 (Revised) can be used in both direct and attestation engagements⁴, however, like the standard, this IAEPN contains material specific to attestation engagements. It may be applied to direct engagements, adapted and supplemented as necessary in the engagement circumstances.

Terminology

10. Terminology in this IAEPN is used consistently with ISAE 3000 (Revised), where defined in paragraph 12 of the standard.
11. The Appendix of ISAE 3000 (Revised) sets out the roles and responsibilities of different parties in an assurance engagement. In many circumstances (in an attestation engagement), the responsible party is also the measurer or evaluator. For simplicity, this IAEPN uses the term 'preparer' to mean a responsible party who is also the measurer or evaluator.

¹ ISAE 3000 (Revised) paragraph 24

² ISAE 3000 (Revised) paragraph 32

³ Refer to ISA 200 paragraph A4 for definitions of general purpose and special purpose reporting.

⁴ Refer to ISAE 3000 (Revised) paragraph 12(a)(ii) for definitions of attestation and direct engagements.

Section I - Guidance for practitioners in applying ISAE 3000 (Revised) to EER

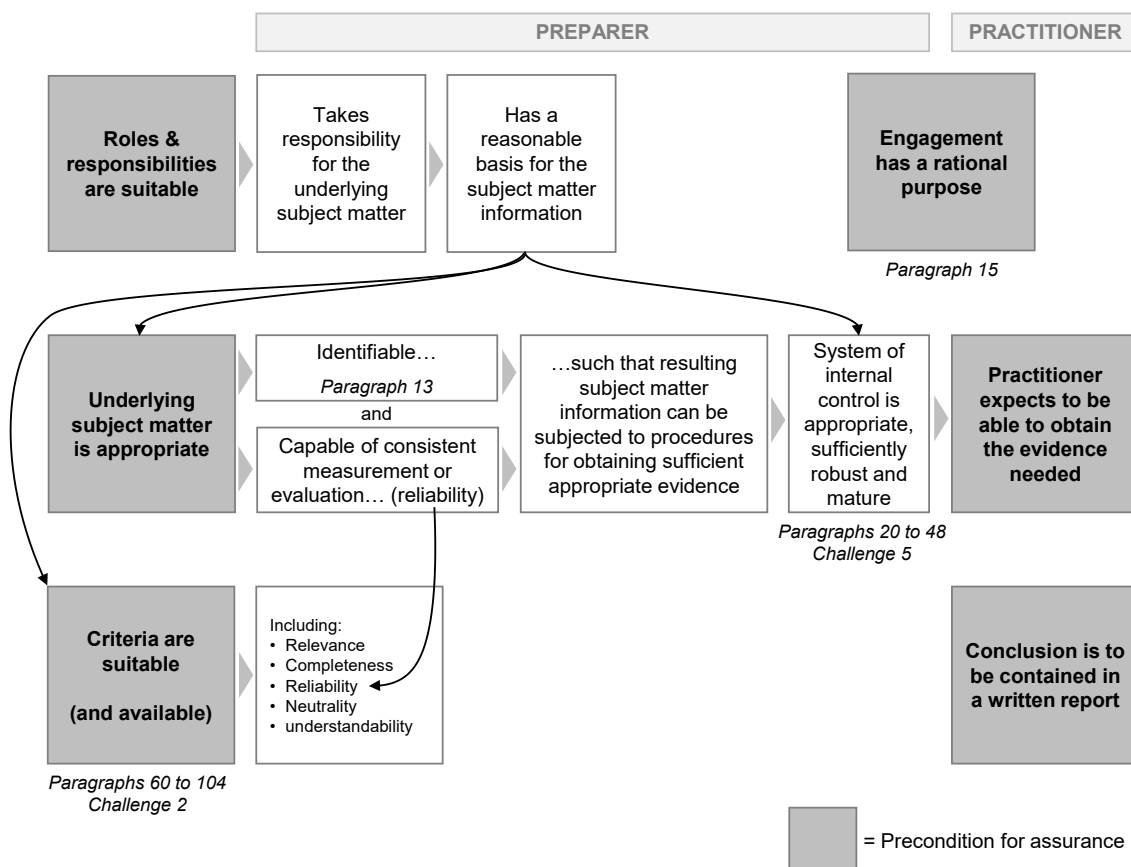
Acceptance and continuance

ISAE 3000 (Revised) paragraphs 21-30

Preconditions for assurance

12. The standard sets out in paragraph 24 the preconditions which must be present for a practitioner to perform an assurance engagement in accordance with ISAE 3000 (Revised). These are summarized in the six grey shaded boxes:

Preconditions for assurance



Understanding the preconditions

13. Identifiable underlying subject matter means that the subject matter elements (see paragraphs 219 to 234) are well-defined and distinct from other things.

EXAMPLE

The carbon emissions of an entity might be an identifiable underlying subject matter because there are widely accepted definitions of carbon emissions (such that they are distinct from other things, for example effluent). Additionally, methods exist to measure or estimate those carbon emissions which are attributable to the entity's activities.

However, the impact of the entity's activities on global temperature change might not be identifiable. This is because it is difficult to attribute the temperature change to carbon emissions of specific entities and to separate the impact of carbon emissions from other factors causing temperature change (for example deforestation).

14. For the preparer to have a reasonable basis for the subject matter information, the practitioner might expect the following three conditions to be satisfied:
- a) The underlying subject matter is appropriate (see definitions in paragraph 24(a));
 - b) The criteria are suitable (see guidance in paragraphs 60 to 104); and
 - c) The preparer's governance and system of internal control is appropriate, sufficiently robust and mature. This includes its reporting (information) system, controls and oversight (see guidance below in paragraph 20 onwards).
15. For an engagement to have a rational purpose, it will have an appropriate reason for being undertaken, which is linked to the purpose of the report. In turn, the purpose should be useful and helpful to the intended users, such that the assurance engagement will enhance the degree of confidence that the intended users have in the subject matter information.

Practitioner's responsibilities

16. When deciding whether to accept a new engagement for the first time, the practitioner is required to establish whether the preconditions for an assurance engagement are present. Making the

acceptance decision will be based on a preliminary knowledge of the engagement circumstances and discussion with the preparer⁵.

Refer to paragraph 59 for further information about understanding the engagement circumstances.

17. In some circumstances, for example in larger or more complex engagements, the practitioner may choose to undertake the acceptance process as part of a separate 'assurance readiness' engagement to assess whether the preconditions are present.

Refer to paragraphs 36 to 39 for further guidance.

18. For a recurring engagement, the same preconditions are required, however the continuance process is likely to be more straightforward as the practitioner will already have good knowledge of the entity and the engagement circumstances with which to assess if the preconditions are present. The practitioner may therefore focus on whether there have been any changes since the previous acceptance/continuance decision was made.
19. The preconditions need to be present for all assurance engagements, regardless of whether limited or reasonable assurance is being provided. In order for a limited assurance engagement to be possible, the report must be capable of being subject to a reasonable assurance engagement.

Maturity in Governance & Internal Control (Challenge 5)

What is the challenge?

20. Many entities seeking to apply EER frameworks may have a reporting system, controls and oversight in place for EER which are not yet very robust. A lack of maturity and formality may mean it is challenging for the practitioner to conclude whether the preconditions for an assurance engagement are present or not. If the control environment is too weak, the higher control risk may mean the EER report is not readily capable of being assured.
21. Entities producing EER reports typically develop the system and processes needed to support the reporting gradually over time as the reporting itself becomes more established and formal. Establishing internal controls and appropriate levels of oversight by senior management and those

⁵ ISAE 3000 (Revised) paragraph 24

charged with governance also tends to happen over a period of time, partly due to the further effort and cost involved. The reporting system, controls and oversight need to have developed to such a level which is appropriate in the circumstances of the entity in order to support an assurance engagement. This guidance aims to help practitioners conclude whether the reporting system, controls and oversight are sufficiently mature such that the preconditions for assurance are present.

[Further guidance to be developed on the nature of a reporting system in an EER context]

Comparison with financial reporting

22. The requirements of the standard to consider the process used to prepare the subject matter information (in a limited assurance engagement) or to obtain an understanding of internal control (in a reasonable assurance engagement)⁶ are comparable with the requirements for a financial statement audit.
23. However, the guidance below may be helpful for practitioners as it is common for the reporting system and internal controls over EER processes to be less mature than their equivalents for the entity's financial reporting process, especially where the entity has only recently begun preparing EER reports. In some cases, a system designed for internal management reporting may not be sufficiently robust and reliable to support external reporting if the purpose and users of the external report require a higher degree of quality and accuracy to support their decision-making than is necessary for internal management purposes.

Relevant preconditions for the assurance engagement

24. The maturity of governance and internal control over EER is an important consideration in evaluating whether the preconditions for an assurance engagement are present. Aspects of the preconditions which may be affected by the maturity level of the entity's governance and internal control environment include:
 - a) The underlying subject matter is appropriate⁷. An appropriate underlying subject matter is identifiable and capable of consistent measurement or evaluation against the applicable criteria⁸;

⁶ ISAE 3000 (Revised) paragraph 47L / 47R

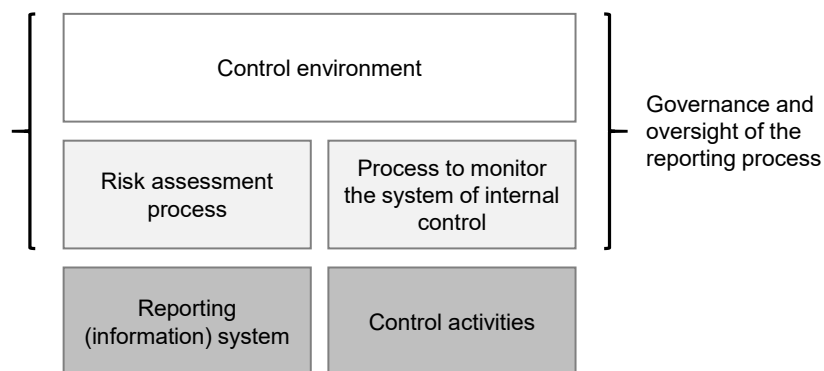
⁷ As required by ISAE 3000 (Revised) paragraph 24(b)(i)

⁸ ISAE 3000 (Revised) paragraph A40

- b) The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances;
- c) The preparer⁹ is responsible for having a reasonable basis for the subject matter information¹⁰. The standard notes that “in some cases, a formal process with extensive internal controls may be needed to provide the [preparer] with a reasonable basis that the subject matter information is free from material misstatement”; and
- d) The practitioner expects to be able to perform procedures to obtain sufficient appropriate evidence to support their assurance conclusion¹¹.

Understanding the entity’s system of internal control

25. In order for the preparer to have a reasonable basis for the subject matter information, some form of system of internal control will need to exist. An entity’s system of internal control can have five inter-related components¹²:



26. The level of sophistication of the reporting system and the controls in the control activities component may vary according to the size and complexity of the entity, and the nature and complexity of the underlying subject matter and criteria. Similarly the level of formality of the risk assessment process and the process to monitor the system of internal control may also vary for differently sized entities. The practitioner’s role is to determine whether the preparer has a reasonable basis for the subject matter information. This includes considering whether the system of internal control is appropriate and sufficiently mature (in terms of its level of sophistication and formality) in the engagement circumstances.

⁹ This would be the responsibility of the measurer or evaluator in circumstances where this role is distinct from the responsible party – see the Appendix to ISAE 3000 (Revised).

¹⁰ ISAE 3000 (Revised) paragraph A39

¹¹ ISAE 3000 (Revised) paragraphs 24(b)(iv) and A40

¹² Based on ED-ISA 315 (Revised) paragraph 16(l)

27. Some examples of aspects of the components of an entity's system of internal control that a practitioner might expect to be in place are given below. The three components shown in the top three boxes above are considered together under the heading 'governance and oversight of the reporting process'.

The examples should not be treated as an exhaustive list of the minimum requirements an entity must have in place. As noted above, some entities will require extensive internal controls and processes beyond these in order for the preparer to be able to take responsibility for the subject matter information being free from material misstatement. In all cases the level of development of the system of internal control needs to be appropriate in the engagement circumstances, considering the size and complexity of the entity. Further guidance is given in paragraphs 33 to 35.

Reporting (information) system

28. Examples of aspects of a reporting system which a practitioner might understand to consider whether it is appropriate in the engagement circumstances include:

- a) Appropriate measurement or evaluation bases and other reporting policies in place to identify, recognize (where applicable), measure, present and disclose the information about the subject matter elements consistently;

See also requirements for suitable criteria.

- b) Processes to develop the measurement or evaluation bases and other reporting policies;
- c) Robust and consistent processes to capture the information and data required for measuring and evaluating the underlying subject matter;
- d) A robust 'materiality process';

Refer to paragraph 109.

- e) Appropriate records and source documentation to support the subject matter information. These should be stored and accessible to be used as evidence by the practitioner; and
- f) Appropriate use of IT to support the above.

29. The preparation of EER reports is likely to involve the use of IT to collect and/or process the data. Some entities may use complex IT software, while others may rely on simple spreadsheets or just

hard copy records. Identifying what tools are being used by the preparer is an important part of the practitioner obtaining an understanding of the engagement circumstances.

30. Further considerations may be necessary where information comes from an external information source. An external information source is an external individual or organization that provides information that has been used by the preparer in the preparation of the report¹³. A key consideration is whether the information is suitable for use by the intended users. Determining this may require judgment, including taking account of the entity's ability to influence the external information source.

Control activities

31. Examples of areas of internal control relating to the reporting system for which a practitioner might consider whether the controls are appropriate in the engagement circumstances include:
- a) Segregation of duties between individuals involved in the reporting process, to the extent appropriate according to the size of the entity. There would ideally be segregation between those preparing the information and those reviewing it;
 - b) Prevention of the preparer modifying underlying sources of data, information or documentation which the practitioner would use as evidence;
 - c) Appropriate IT controls to ensure any supporting IT systems are secure, robust, reliable and adequately maintained; and
 - d) Prevention of management bias occurring in the process to develop the measurement or evaluation bases and other reporting policies.

Governance and oversight of the reporting process

32. Examples of aspects of governance and oversight which a practitioner might consider whether they are appropriate in the engagement circumstances include:
- a) Involvement of senior management and those charged with governance at appropriate stages throughout the reporting process;
 - b) Approval of the report by those charged with governance;

¹³ Conforming and Consequential Amendments to ISA 500, paragraph 5(cA), arising from the revision of ISA 540.

- c) The establishment of a subgroup of those charged with governance, such as an audit committee, charged with oversight responsibilities for the preparation of the report (for larger entities);
- d) Those charged with governance and senior management setting an appropriate 'tone at the top' to encourage high quality reporting processes and a high standard of ethical practices;
- e) Key decisions made by those charged with governance being recorded in written documentation, for example in minutes of board meetings; and
- f) Effective processes for aligning the content of the report with the strategy and operations of the business.

Consideration of the entity's size, complexity and nature

33. The level of formality required in terms of the entity's reporting system, controls and oversight to meet these requirements will largely depend on the entity's complexity and size. A small and non-complex entity may not require formal documented controls or processes in order for the preparer to meet their responsibilities and for the practitioner to be able to accept the engagement. However, a larger entity, perhaps a listed company, or a multi-national company, might require more detailed and formalized processes and controls supporting its external reporting.
34. The nature of the system, processes and records should be appropriate for the size and complexity of the entity.

EXAMPLE

For reporting on employee diversity, it may be appropriate for a small entity with 25 employees to record and store this data on a simple spreadsheet managed by one of the staff. However, in the case of a large entity with 20,000 employees across the world, a much more sophisticated process managed by HR teams would be required, probably supported by an appropriate IT system, in order to collect, collate and store data which is accurate and complete.

35. Other factors affecting the nature of the entity and its environment, for example its physical location, may be relevant for the practitioner to consider in concluding whether the reporting system, controls and oversight are appropriate in the engagement circumstances.

Assurance Readiness Engagements and Maturity Assessments

36. As noted in paragraph 17 above, the practitioner may choose to undertake the acceptance process as part of a separate engagement prior to committing to an assurance engagement. The typical aim is to explore whether the proposed criteria are suitable and whether the entity's reporting system, controls and oversight are adequate. If it is found that the preconditions for assurance are present, the entity can then choose to proceed with an assurance engagement.
37. As well as assisting the practitioner manage a client's expectations, this approach can also be beneficial to the entity as the practitioner would typically prepare a management letter (or similar) with its findings and recommendations, allowing those charged with governance to strengthen and improve its processes and controls.
38. A practitioner may alternatively undertake a 'maturity assessment' to evaluate (against practitioner-defined criteria) the maturity of the EER process as a whole, or relevant aspects of it, such as whether the performance measures the entity is developing are sufficiently well-established to provide users with the appropriate information they need to support their decision-making.
39. Although these engagements and assessments can also provide insights that may assist the entity in further developing its EER processes, the practitioner must take care to comply with applicable ethical and independence requirements that may apply to a subsequent EER assurance engagement or where they are also providing an audit or other assurance engagement.

Making acceptance decisions

40. When making a decision whether to accept a new engagement or not, the practitioner uses an initial understanding of the reporting system, controls and oversight as part of a preliminary knowledge of the engagement circumstances.

41. The following judgments (based on some of the preconditions for an assurance engagement) may assist the practitioner in making the acceptance decision:
- a) Is the underlying subject matter appropriate?
 - i) Is it identifiable; and
 - ii) Is it capable of consistent measurement or evaluation against the applicable criteria;

such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence?
 - b) Are the criteria you (as the practitioner) expect to be applied suitable for the engagement circumstances?
 - i) Is there an appropriate process for developing and reviewing the criteria?
 - c) Has the preparer appropriately fulfilled its responsibility to have a reasonable basis for the subject matter information?
 - i) Is the underlying subject matter appropriate (see above)?
 - ii) Are the criteria suitable?
 - iii) Is the governance and system of internal control appropriate and sufficiently robust?
 - d) Do you (as the practitioner) expect to be able to obtain the evidence needed to support your assurance conclusion?

The full preconditions for an assurance engagement are set out in paragraph 24 of the standard.

42. The same preconditions for an assurance engagement must be present for both limited and reasonable assurance engagements. Despite common misconceptions, the appropriate level of maturity in the reporting system, controls and oversight is not lower for limited assurance engagements; the requirements for accepting an engagement are the same as for reasonable assurance engagements.

43. An entity continually seeking to improve their reporting and experiment in innovative ways is not necessarily the same as an entity with an immature reporting system. Practitioners are often in a position to encourage entities to improve the effectiveness of their reporting system and the strength of their internal controls. Once an entity's reporting system, controls and oversight are sufficiently mature to support an assurance engagement, further innovation and improvement is to be encouraged, although the reporting system and controls need to remain sufficiently robust. Where innovation leads to changes in criteria, there may be consequences to consider in terms of a reduction in comparability; see paragraph 78.

Response where governance and internal control are not sufficiently mature

44. Where the practitioner concludes that the entity's internal control environment and level of oversight is too weak such that the preconditions for an assurance engagement are not present, they shall in the first instance discuss this with the engaging party (management and/or those charged with governance). If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement¹⁴.
45. It may then be appropriate for the practitioner to engage with the entity to undertake an assurance readiness assessment (see paragraphs 36 to 39 above). This might give the practitioner the opportunity to report their findings regarding the internal control environment in a management letter to assist senior management and those charged with governance. The preparer may be encouraged to take steps to improve the controls and level of oversight such that an assurance engagement is possible in future.
46. In circumstances where the preparer has not met its responsibilities and the practitioner cannot decline the engagement as it is required by law or regulation, the practitioner considers whether it is necessary to express a qualified conclusion or disclaim a conclusion. An engagement conducted under such circumstances does not comply with ISAE 3000 (Revised). Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 (Revised) or any other ISAE(s)¹⁵.

EXAMPLE

A practitioner may not be able to decline the engagement where it is required that an assurance engagement is undertaken by law. This is commonly found in a public sector regulatory environment in some jurisdictions.

¹⁴ ISAE 3000 (Revised) paragraph 25

¹⁵ ISAE 3000 (Revised) paragraph 25

Impact on engagement strategy

47. The level of maturity of the internal control environment may also affect the practitioner's strategy for the assurance engagement in terms of testing controls and designing appropriate assurance procedures.

Refer to 'Planning and Performing the Engagement' for further guidance on designing the assurance strategy and procedures relating to the challenges covered by this IAEPN.

48. When an engagement has been accepted, the practitioner has responsibilities when planning the engagement to obtain a more detailed understanding of the engagement circumstances¹⁶ than would have been obtained to make an acceptance decision. In doing so, the requirements set out in paragraphs 47L and 47R of the standard for limited and reasonable assurance engagements respectively are relevant.

When undertaking a reasonable assurance engagement, the practitioner is required to evaluate the design of the controls relevant to the engagement and determine whether they have been implemented by performing procedures in addition to inquiry of the personnel responsible for the subject matter information¹⁷.

Determining the Scope of an EER Assurance Engagement (Challenge 1)

49. [This challenge has been allocated to phase 2 of the project, however the results of Task Force discussions to date are included below.]

What is the challenge?

50. The potential scope of an EER assurance engagement may be broader and more diverse than the scope of an audit of financial statements, reflecting the much greater diversity in the information in EER reports. As EER develops and matures, there is demand for assurance other than full scope assurance engagements (with a lesser scope), as well as new forms of engagements which are emerging. However, for many, this appears to be a complex area and the necessary considerations for accepting engagements are not always well understood, for example assessing whether there is a rational purpose for an engagement.

¹⁶ ISAE 3000 (Revised) paragraph 46L / 46R

¹⁷ ISAE 3000 (Revised) paragraph 47R.

Initial guidance

51. The IAASB notes the wide variety of current practice in setting the scope of assurance engagements being carried out in accordance with ISAE 3000 (Revised). The scope of an engagement can be an entire report or only part, or specific aspects, of a report.
52. ISAE 3000 (Revised) can be applied to all these different engagements provided that the preconditions in paragraph 24 of the standard are met, in particular the requirements for the underlying subject matter to be appropriate, for the criteria to be suitable and for the engagement to have a rational purpose. If considering a particularly narrow scope for the assurance engagement, for example only covering specific measures or indicators in isolation, careful consideration is needed to conclude whether the engagement has a rational purpose. Careful consideration of rational purpose is also needed if the practitioner believes the engaging party intends to associate the practitioner's name with the underlying subject matter or the subject matter information in an inappropriate manner¹⁸.

Also refer to guidance on the suitability of criteria – paragraphs 60 to 104.

53. In circumstances where the assurance scope is not an entire report and the scope is to be determined by agreement between the preparer and the practitioner, one approach is to include the most material aspects of the report within the assurance scope. Care should be taken to ensure the reason for excluding aspects of the subject matter information from the assurance engagement is appropriate such that the engagement still has a rational purpose¹⁹. Selecting aspects only based on what is straightforward to assure or what presents the entity in a positive way may mean the assurance engagement does not have a rational purpose.

Refer to materiality guidance – paragraphs 105 to 147.

54. Anything in a report not within the scope of the assurance engagement is classed as 'other information'. Regardless of the engagement's scope, the practitioner is required by paragraph 62 of the standard to read all 'other information' in the report to identify material inconsistencies between the subject matter information included in the assurance scope and the other information which is not in the assurance scope. If a material inconsistency or an unrelated material misstatement of fact in the 'other information' is identified, the practitioner is required to discuss this with the preparer and taken further action as appropriate.

¹⁸ ISAE 3000 (Revised) paragraph A56

¹⁹ ISAE 3000 (Revised) paragraph A56

55. [Guidance to be developed further in phase 2]

Quality Control

ISAE 3000 (Revised) paragraphs 31-36

Obtaining the Competence Necessary to Perform the Engagement (Challenge 9)

56. [Guidance to be developed in phase 2]

Professional Skepticism, Professional Judgment, and Assurance Skills and Techniques

ISAE 3000 (Revised) paragraphs 37-39

Exercising Professional Skepticism and Professional Judgment (Challenge 8)

57. [Guidance to be developed in phase 2]

Planning and Performing the Engagement

ISAE 3000 (Revised) paragraphs 40-47

58. In planning the engagement, the practitioner is required to determine whether the criteria are suitable for the engagement circumstances²⁰, as well as the nature, timing and extent of planned procedures²¹. In assessing the suitability of criteria, the practitioner considers how they address the principle of materiality given that materiality is an aspect of relevance (one of the required characteristics of suitable criteria).
59. The practitioner is also required to obtain an understanding of the underlying subject matter and other engagement circumstances²². As noted in paragraph A102 of the standard, this provides the practitioner with a frame of reference for exercising professional judgment throughout the engagement. The 'engagement circumstances' are the broad context of the engagement, with an important aspect being the need for the practitioner to obtain an understanding of the entity and its activities.

[Further guidance on understanding the 'engagement circumstances' to be developed]

Further explanation of the standard's requirements and the meaning of 'engagement circumstances' is given in paragraphs A101-A107 and 12(d) of the standard.
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Evaluating the Suitability of Criteria in a Consistent Manner (Challenge 2)

ISAE 3000 (Revised) paragraphs A45-A50

What is the challenge?

60. Reporting frameworks used for preparing EER reports are often less prescriptive about the content of a report and methods to represent its subject matter elements, and therefore more ambiguous about the determination of these items. In financial reporting, the criteria are typically well established, and are then supported by accounting policies specific to the entity. Given the diverse nature of the underlying subject matter in EER, there is considerable opportunity for management bias in determining the content of a report and the methods used to represent its subject matter

²⁰ ISAE 3000 (Revised) paragraph 41

²¹ ISAE 3000 (Revised) paragraph 40

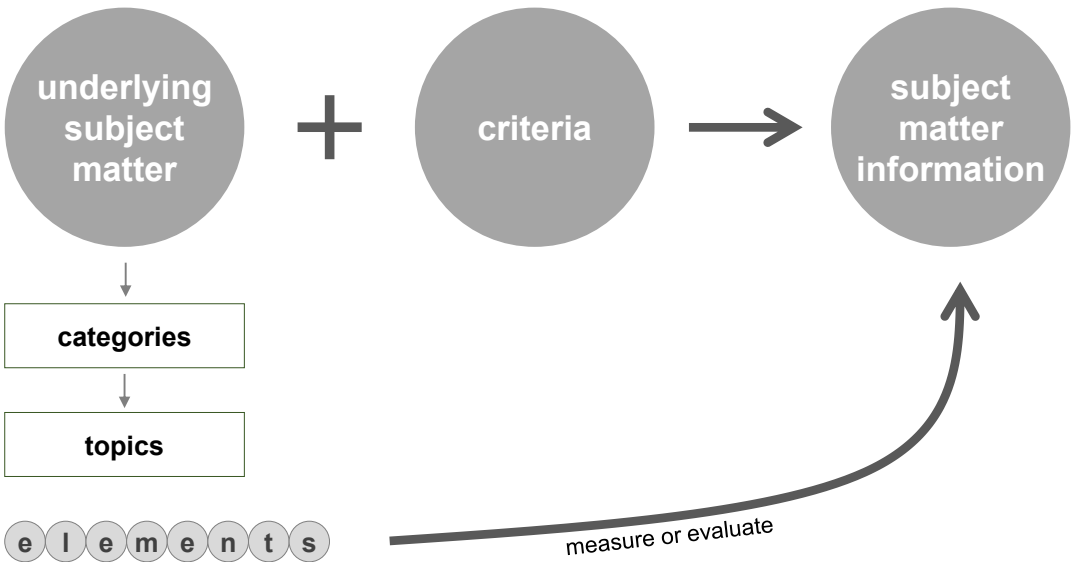
²² ISAE 3000 (Revised) paragraph 46L / 46R

elements. There is therefore considerable need for the application of professional judgment and professional skepticism by the practitioner in determining the suitability of criteria in an EER-related assurance engagement.

Refer to Section II for discussion of differences between financial reporting and EER frameworks with respect to criteria, as well as further description of underlying subject matter and subject matter elements.

Introduction

61. Criteria specify both:
- a) the nature and scope of the topics and related elements to be included in the report; and
 - b) the representations of such elements that should be included in the report, including the qualities of the elements that should be described, and the methods to be used in measuring or evaluating those qualities.



ISAE 3000 (Revised) Definitions		
Underlying subject matter	Criteria	Subject matter information
The phenomenon that is measured or evaluated by applying criteria.	The benchmarks used to measure or evaluate the underlying subject matter.	The information that results from applying the criteria to the underlying subject matter.

62. All assurance engagements have an underlying subject matter linked to the purpose of the report. The term 'phenomenon' is used in the standard in the sense of a 'thing' which is perceived or considered, rather than the in the sense of something that is remarkable or rare. Underlying subject matter could in some cases be broken down into 'categories' and 'topics'; see paragraphs 230 to 232 for further details.
63. The criteria specify how to provide a representation of relevant elements (and the relevant causes of their change) in the context of achieving the purpose of the report. The standard refers to them as 'benchmarks'. In effect, they identify how the relevant properties of relevant elements are measured or evaluated qualitatively. They include, for example, the definitions of relevant performance indicators, measurement or evaluation bases and other reporting policies, and more widely the whole basis of preparation of the report.

Refer to 'The general concept of an EER report' in Section II of this IAEPN for further explanation.

An illustration of these terms in a financial reporting context:				
EXAMPLE	<i>Underlying subject matter</i>	<i>Criteria</i>	<i>Subject matter information</i>	<i>Elements</i>
	Financial condition and performance of Entity X.	The measurement bases set out in IFRS.	Accounting values in the primary financial statements and the related disclosures in the notes.	Economic resources (e.g. assets) and claims on those resources (e.g. liabilities), and transactions, other events and conditions (e.g. income and expenses).

EXAMPLE	A specific example to illustrate these terms from non-financial statement reporting:			
	<i>Underlying subject matter</i>	<i>Criteria</i>	<i>Subject matter information</i>	<i>Elements</i>
	Environmental, social and governance information about Entity X.	Percentage of people employed by Entity X who are male at a specific point in time ²³ .	50% of employees are male.	Entity X's employees.
	↓ Social / human information ↓ Staff diversity			

64. Criteria can either be taken from a reporting framework or be developed by the entity itself. In reality, many entities use criteria from one or more reporting frameworks and supplement these with their own entity-specific criteria where a reporting framework lacks the necessary detail or is not fully comprehensive.

Requirements for suitable criteria

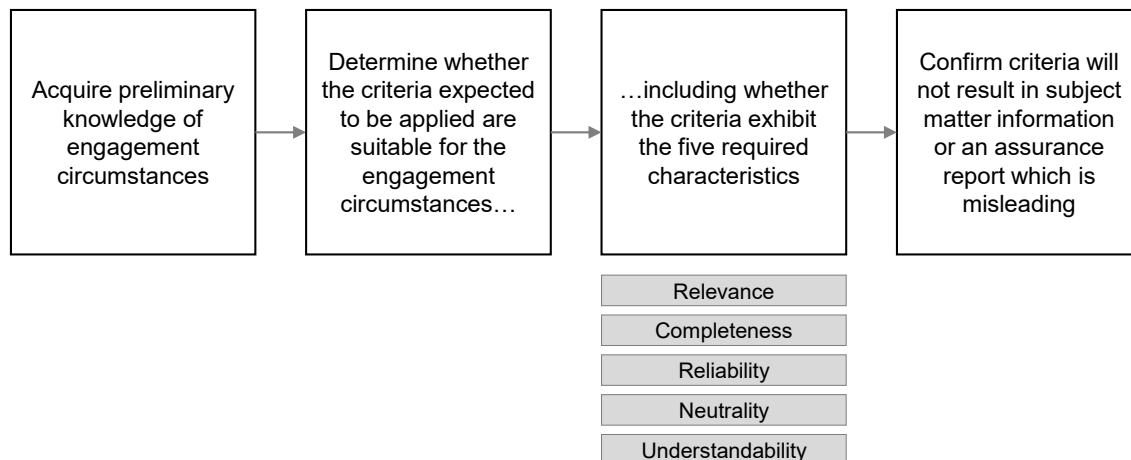
65. As detailed in paragraphs 12 to 14, it is a precondition for an assurance engagement that the criteria are suitable for the engagement circumstances. Suitable criteria are required to achieve reasonably consistent measurement or evaluation of the underlying subject matter. 'Reasonably consistent' is to be determined using professional judgment. Suitability is judged in the context of the engagement circumstances. Without criteria, the subject matter information may be open to individual interpretation where there is undue subjectivity, increasing the risk of misunderstanding.
66. Suitable criteria are required to exhibit each of five characteristics. The definitions of these characteristics specify characteristics of the subject matter information that necessarily result from using the suitable criteria. The practitioner is required to determine whether the criteria exhibit each of the five characteristics, which are²⁴:
- Relevance;
 - Completeness;
 - Reliability (broadly equivalent to 'accurate' or 'free from error');

²³ In order to be suitable, the criteria in this example may need to be more specific, for example giving a definition of an employee to specify whether contractors are included, or how to treat part-time employees.

²⁴ ISAE 3000 (Revised) paragraph 41

- d) Neutrality; and
- e) Understandability.

67. In addition to exhibiting these five characteristics, an overarching principle in the standard is that criteria developed by the entity would not be suitable if they result in subject matter information or an assurance report that is misleading to the intended users²⁵. This is consistent with the expectation that suitable criteria give rise to subject matter information that is not overly subjective.
68. The five characteristics are generic and are in many cases inter-related. Each must be exhibited in all cases, but the relative importance of each and the degree to which they are exhibited such that the criteria are suitable will vary according to the engagement circumstances.
69. The following diagram shows steps the practitioner may follow in evaluating the suitability of criteria:



70. The definitions of each of the required characteristics for criteria²⁶, along with some factors the practitioner may find helpful to consider in assessing whether the criteria are suitable, are set out below²⁷.

[Further examples of each of the characteristics to be developed]

71. The engagement circumstances may include use of a reporting framework which implicitly or explicitly requires different or more specific characteristics of the criteria to be used in preparing the subject matter information. Some examples and guidance relating to possible additional

²⁵ ISAE 3000 (Revised) paragraph A50

²⁶ ISAE 3000 (Revised) paragraph A45

²⁷ Some factors based on *Exposure Draft NZAuASB 2017-2* (New Zealand Auditing and Assurance Standards Board, 2017)

characteristics are included below, for example conciseness (see paragraph 81) and comparability (see paragraph 78), which may be seen as more specific aspects of understandability and relevance respectively. Where a framework includes such additional characteristics of criteria, it is still necessary for the applicable criteria for the engagement to exhibit each of the ISAE 3000 (Revised) characteristics, at least in meaning if not by name. Many of the commonly-used frameworks in some cases use different terms to describe similar concepts to the required characteristics. It may be helpful for the practitioner to understand whether the additional criteria are more specific aspects of, or a different term for the same underlying concept, one of the characteristics required by ISAE 3000 (Revised).

Relevance

ISAE 3000 (Revised) Definition

Relevant criteria result in subject matter information that assists decision-making by the intended users.

72. Considering relevance involves considering whether the criteria will result in subject matter information that could affect user decision-making in the context of the purpose of the report.
73. Understanding what subject matter information could affect user decision-making may be approached by:
 - a) Considering whether, and if so the extent to which, the preparer has:
 - i) Considered the general types of decisions that users might take based on the report and the information that would assist them doing so; and
 - ii) Considered whether the applicable criteria would enable the preparer to identify the relevant elements and their relevant properties, and relevant changes in them, and prepare subject matter information about these matters, that could influence user decision-making in the context of the purpose of the report.
 - b) If the preparer has considered the matter in (a), evaluating the conclusions of the preparer on those matters; and
 - c) If not, considering whether it is reasonably possible for the practitioner to address the matters in (a) directly.

74. Where entity-developed criteria are the result of a rigorous internal process, involving input directly from both the intended users and those charged with governance, they are more likely to be relevant.

Refer to guidance on the maturity of governance and internal control in paragraphs 20 to 48.

75. Relevance of subject matter information may be affected by the inherent level of measurement or evaluation uncertainty. When subject matter information has high inherent measurement or evaluation uncertainty, that information may be relevant only if accompanied by supporting information about the nature and extent of the uncertainty.

Refer also to discussion of 'accuracy' and 'precision' in paragraph 83 below, and further consideration of measurement uncertainty in paragraphs 213 to 215.

76. Materiality is an aspect of relevance in the context of a specific entity. To affect user decision-making, subject matter information must be relevant in general, but it must also be material (relevant in the specific context of the entity and the specific purpose of the report). Whether a particular type of information is or isn't relevant is not binary, but instead its significance to decision-making may be considered to be on a scale which varies according to the context of different entities and purposes of reports. Materiality is a threshold of relevance (or significance to decision-making) in the context of a specific entity and purpose of the report, which has to be judged for all types of information.

EXAMPLE

Financial reporting example:

Revenue would typically be *relevant* to understanding most companies' performance during the year, however in some circumstances the financial value of it may not be *material*.

EER example:

Carbon emissions arising from a manufacturing company's employees commuting to work may be *relevant* to the company's environmental impact, but at the same time they might not be *material* if they were much smaller than the carbon emissions from the manufacturing process itself.

Refer to paragraphs 259 to 261 in Section II for further discussion of the relationship between materiality and relevance.

77. A further consideration is the requirements of the criteria to disaggregate or aggregate information as this may affect materiality judgments. Reporting frameworks do not always specify in detail the required level of aggregation or disaggregation (sometimes referred to as the unit of account). They may, however, include principles for determining an appropriate level in particular circumstances.

Refer to separate guidance beginning at paragraph 105 regarding materiality and how it interacts with the criteria to determine the content of the report.

78. To the extent possible, criteria should be consistent from one reporting period to the next to aid comparability. Where criteria change, disclosure of this with an explanation of the reasons for the change might be expected. Re-stating comparative information (where possible and cost-effective) may also be beneficial to users, however, if necessary, a temporary reduction in comparability may be worthwhile to improve relevance in the longer term.

Completeness

ISAE 3000 (Revised) Definition

Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.

79. Criteria are required to be complete so that the intended user is able to make informed decisions by having access to all relevant subject matter information (see above) in the context of the circumstances of the entity and the purpose of the report.
80. In order for the application of the criteria to result in complete subject matter information, their application must give rise to all relevant subject matter information, including any that represents negative aspects of, for example, the performance or risk being reported on (also see 'neutrality' below).
81. There is a need for a balance to be struck between a report being overly comprehensive and it still being concise enough to remain understandable.

Reliability

ISAE 3000 (Revised) Definition

Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.

82. Reliable criteria should be based on strong definitions with little or no ambiguity, if the resulting subject matter information is to be useful in user decision-making.
83. Reliable criteria are those which are likely to result in subject matter information which represents what it purports to represent (sometimes referred to as faithful representation) sufficiently accurately (freedom from error) and without bias in selecting the information to report (neutrality). Accuracy is not the same as precision. A representation can be sufficiently accurate if it is as precise as is reasonably possible, if it results from applying a well-defined process without error, and if it includes information about the inherent limitations in its precision.
84. Reliable criteria should also result in subject matter information that is capable of being assured because there sufficient appropriate evidence can be obtained to confirm the assertions that it contains. This requires the underlying data and source information to be complete, accurate and neutral and for it to be collected and processed in a manner that maintains its integrity. Unsubstantiated claims in the subject matter information are unlikely to meet this requirement.
85. Reliable criteria may be more relevant and comparable across entities if they are consistent with established measurement bases and benchmarks, which are generally recognized to be valid in the context of the entity's industry or sector. However, there may be good reasons not to use such criteria, for example where more relevant entity-specific criteria can be developed, where permitted by the framework adopted and adequate disclosures are made.

Neutrality

ISAE 3000 (Revised) Definition

Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.

86. Neutral criteria should be designed to cover all relevant aspects of underlying subject matter with suitable emphasis, including both favorable and unfavorable aspects in an unbiased manner.

87. Criteria should not be changed or modified arbitrarily from one reporting period to the next merely to remove negative aspects of performance. This would not be consistent with the principles of neutrality and comparability (an aspect of relevance).
88. Practitioners should be particularly careful to assess the suitability of entity-developed criteria and apply professional skepticism in assessing the neutrality of these criteria due to the inherent risk of preparer bias.

Understandability

ISAE 3000 (Revised) Definition

Understandable criteria result in subject matter information that can be understood by the intended users.

89. Understandable criteria should result in subject matter information which will enable the intended users to identify readily the main points being made and to infer appropriately how significant they are to decision-making. This is likely to be assisted by a clear layout and presentation of the subject matter information in a way that effectively summarizes and draws attention to these points.
90. The criteria should result in the report being coherent, easy to follow, clear and logical.
91. The criteria should require information to be at a level of aggregation that results in sufficiently relevant but concise subject matter information.

Established criteria

92. Where criteria are:
- a) prescribed by law or regulation; or
 - b) issued by an authorized or recognized body of experts that follow a transparent due process, and are relevant to the intended users' information needs;
- they are presumed to be suitable in the absence of indications to the contrary and are known as 'established criteria'²⁸.
93. Some commonly used EER reporting frameworks are issued by global organizations who are recognized bodies of experts following a transparent due process, and these frameworks are often relevant to the intended users' information needs. However, the often limited level of maturity or

²⁸ See ISAE 3000 (Revised) paragraph A49 for details of the definition of established criteria.

high-level approach of these frameworks means that indications may exist that the criteria may not be suitable on their own. Different frameworks specify the criteria to varying degrees of detail. Where a framework is less detailed, for example where it does not specify detailed measurement or evaluation methods, it is often necessary for the preparer to develop more detailed supplementary criteria in the context of that entity and its report. The practitioner then needs to assess the suitability of the detailed criteria and measurement/evaluation methods the entity has developed for use within the overarching framework.

94. Use of a new or developing framework or type of reporting does not necessarily mean that the criteria cannot be suitable, even if it is still maturing, or if the entity's reporting processes are new or developing year-on-year. The practitioner uses professional judgment to assess whether the criteria are suitable in the circumstances, including that they sufficiently exhibit the five required characteristics.

EXAMPLE

Changes to criteria and measurement methods year-on-year are to be expected for EER, particularly when an entity's reporting processes are developing and management are innovating year-on-year to improve their reporting. Such criteria may still be understandable and reliable if there is a reasonable basis for the change and it is sufficiently disclosed and explained in the report. Where an entity's reporting is more mature, the rationale for changes to criteria might need to be stronger, and the explanation more detailed, to meet intended users' expectations.

95. Where a preparer is using an established framework and chooses to modify or adjust the criteria within the framework so that they are different to what is commonly used in the entity's sector, the practitioner applies professional skepticism due to the increased risk of management bias and the resulting subject matter information being misleading to the intended users. The more mature the type of reporting or the framework being used is, the less likely it is that changes made by an entity to measurement methods and related disclosures from commonly-accepted practice adopted by other similar entities will be appropriate.

Fair Presentation and Compliance frameworks

96. The term "fair presentation framework" is used to refer to a reporting framework that requires compliance with the requirements of the framework and:
 - a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the underlying subject matter, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

- b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the underlying subject matter. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above²⁹.

97. Reports are prepared under both fair presentation and compliance frameworks in EER, and both can be the subject of an assurance engagement if the criteria are suitable as described above.
98. A preparer may prepare a report using criteria from both fair presentation and compliance frameworks, but in such circumstances should be careful to establish the overall purpose of the report. In other instances, a preparer may use a compliance framework and add criteria such that the report is prepared under a fair presentation basis.
99. In many instances where the criteria are specified by law or regulation, the law or regulation is a compliance framework. The criteria might be considered to be ‘established’ (see paragraphs 92 to 95), meaning that unless there are any indications to the contrary, they would be assumed to be suitable. The practitioner therefore would not need to specifically assess whether the criteria are relevant, complete, reliable, neutral and understandable. Professional skepticism should be applied in being alert to the existence of indicators that the criteria might not be suitable.

Where a compliance framework is used and the criteria are not deemed ‘established’, the practitioner is required to assess whether they are relevant, complete, reliable, neutral and understandable using the guidance above.

EXAMPLE

The EU non-financial reporting directive could be considered as establishing a compliance framework where the criteria are specified by law in member states.

[Example to be added of a compliance framework where the criteria are issued by a recognized body of experts that follow a transparent due process.]

Availability of the criteria

100. Criteria need to be made available to the intended users to enable them to understand how the underlying subject matter has been measured or evaluated. Paragraphs A51-A52 of ISAE 3000

²⁹ Based on definitions in ISA 200 which is written specifically for financial reporting frameworks.

(Revised) describe ways in which this can be done. Practitioners assess the adequacy of the preparer's transparency, considering whether they have been disclosed with sufficient detail and clarity that they can be said to be "available".

101. The criteria may be made available outside of the report, for example if an established, publicly available framework has been used. In the case of entity-developed criteria, the entity may choose to publish the criteria and reporting policies in a separate report or on its website which is then cross-referred to in the report. This may be a preferable option where a report is intended to be concise (for example, summary financial statements included in an annual report).
102. The more familiar the intended users are with the type of reporting, the less likely it will be necessary to disclose detailed explanations of the reporting policies and measurement/evaluation methods, as these will be considered to be available by 'general understanding' to the intended users.

Consequences where criteria are not suitable or available

103. Where the practitioner concludes that the applicable criteria are not suitable and/or available, the practitioner cannot accept the engagement, unless:
 - a) They are mandated to do so under law or regulation; or
 - b) The preparer resolves the issue to the practitioner's satisfaction, allowing the engagement to be accepted; or
 - c) The scope of the assurance engagement can be restricted to one or more aspects of the underlying subject matter for which the criteria are suitable and available³⁰.
104. If it is discovered after the engagement has been accepted that some or all of the applicable criteria are unsuitable, the practitioner is required to follow the requirements of ISAE 3000 (Revised) paragraphs 42 and 43. In circumstances where the practitioner is mandated to accept the engagement under law or regulation but the criteria are not suitable and/or available, the practitioner should follow the same requirements to express a qualified or adverse conclusion, or disclaimer of conclusion, as appropriate in the circumstances.

³⁰ ISAE 3000 (Revised) paragraph A36

Using Materiality to Evaluate what is included in the Report (Challenge 3)

ISAE 3000 (Revised) paragraph 44, A92-A100

What is the challenge?

105. The content of EER reports is generally less comprehensively specified and requires more judgment in EER frameworks than in financial reporting. A key challenge, therefore, in an EER assurance engagement is how to assess what topics and related elements would be material, when both the users and their information needs can be diverse or even unknown. EER frameworks do not always provide direction on materiality. In applying the concept of materiality, there will likely be a need for an entity's EER materiality process to ensure these judgments reflect the broader and more diverse user perspective often encountered.

Introduction

106. The standard requires the practitioner to “consider materiality when planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and evaluating whether the subject matter information is free from material misstatement”³¹.
107. In circumstances where the content of a report is not entirely specified by a framework, the preparer needs to make judgments to decide what topics and related elements are to be included in the report, based on what is material. In simple terms, something is material if it could “reasonably be expected to influence relevant decisions of intended users”³². Materiality is therefore linked to the report's criteria which determine the subject matter information. It is one aspect of the requirement for the criteria to be relevant such that they result in subject matter information which assists decision-making by the intended users³³.

Refer to paragraphs 60 and 104 for further guidance regarding criteria.

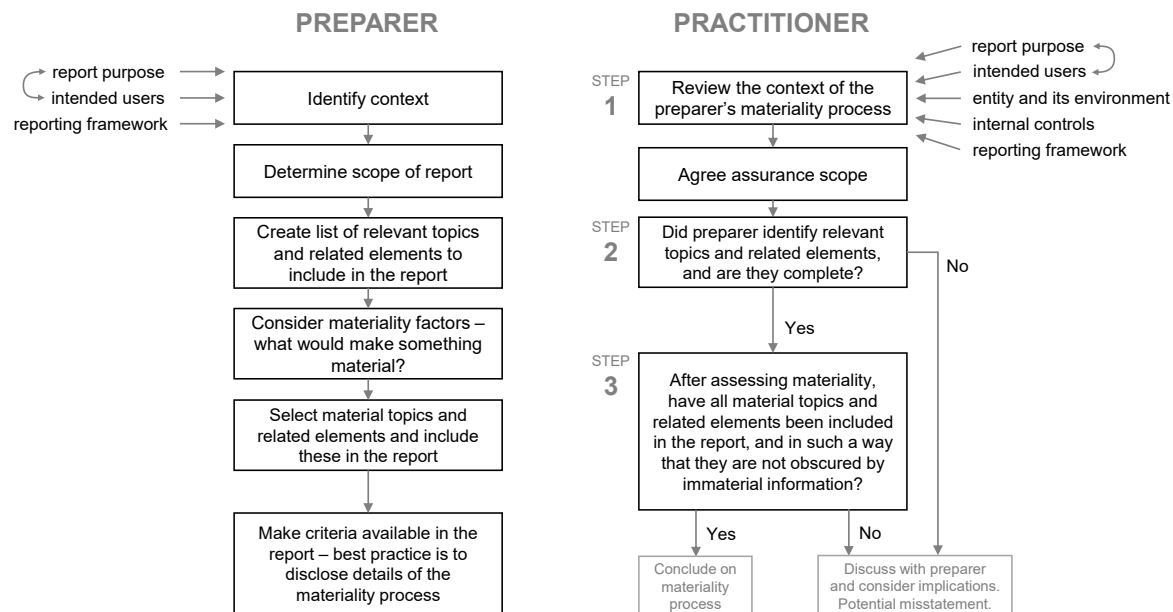
108. The practitioner is required to understand management's internal control over the preparation of the subject matter information relevant to the engagement. Preparing the subject matter information includes addressing materiality considerations as described above.
109. The flowchart below may provide the practitioner with a framework to consider and review the preparer's 'materiality process'. The steps a preparer might be expected to follow are provided on the left-hand side for reference, and further detail is given in Section II of this IAEPN. The

³¹ ISAE 3000 (Revised) paragraph 44

³² Based on concept in ISAE 3000 (Revised) paragraph A94

³³ ISAE 3000 (Revised) paragraph A45

suggested process for a practitioner is split into three steps as shown on the right-hand side of the diagram and then explained in the guidance paragraphs below.



[Further guidance to be developed to explain how this varies where the scope of the assurance engagement is limited to certain parts of the report.]

Step 1: Review the context of the preparer's materiality process

110. The practitioner is advised to begin by reviewing the context of the preparer's materiality process including consideration of the:

- a) Report's purpose (step 1a);
- b) Intended users (step 1b);
- c) Entity and its environment;
- d) Internal controls; and
- e) Reporting framework.

111. Ideally a preparer documents their 'materiality process' and the decisions they have made so that it can be reviewed by the practitioner. In the absence of written documentation, the practitioner may be able to review the preparer's process through inquiry of the preparer. If the preparer has not

undertaken an appropriate process to determine the content of the report, the practitioner needs to consider whether this suggests the preconditions for an assurance engagement are not present.

Refer to the section regarding Maturity in Governance & Internal Control for further guidance, in particular paragraph 28.

112. Use of certain reporting frameworks may establish the report's purpose and identify who are the intended users. Frameworks may specify the underlying subject matter and the criteria to varying degrees. In some cases this might include specifying the criteria for entities in specific industries to use based on what the framework-setter considers is likely to be material for particular groups of intended users.
113. However, it is often the case that EER frameworks do not provide a sufficient basis to support the preparer's materiality decisions, or that the preparer may be using entity-developed criteria.
114. The following paragraphs provide further guidance for the practitioner to consider the report's purpose (step 1a) and the intended users (step 1b). No further specific guidance is considered necessary in respect of considering the entity and its environment, internal controls or the reporting framework beyond what is included in ISAE 3000 (Revised).

Step 1a: Has the preparer adequately identified the purpose of their report?

115. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users. A few examples of the report's purpose might include:
 - To report the entity's impact on the natural environment
 - To describe the entity's activities over a period and how they contribute to the entity's objectives
 - To describe how the entity creates 'value'
 - To inform the intended users of the financial position, financial performance and cashflows of the entity
 - To describe what the entity plans to do in the future, or how it expects to perform
116. The practitioner is advised to consider the report's purpose as context when assessing the materiality judgments made by the preparer.

Step 1b: Has the preparer adequately identified the report's intended users?

117. In order to make decisions based on materiality, it is important for the preparer to understand the general nature of decisions the intended users³⁴ are likely to take based on, or influenced by, the information in the report. The practitioner therefore also uses this as context when assessing the materiality judgments made by the preparer.
118. A distinction is made between intended users and stakeholders. A stakeholder in the entity may
- a) have a relationship and interactions with the entity, and / or
 - b) be directly or indirectly affected by the entity's actions.

There may be circumstances where the stakeholders and intended users are not the same. Some stakeholders may only have influence or a voice through a third-party agent(s), whether they have chosen to be represented in this way or not. The agent(s) may then be an intended user of the report, and the stakeholder may not read or use the report themselves directly.

EXAMPLE

A victim of child slavery involved in a company's manufacturing supply chain (a stakeholder) would presumably not be in a position to read the company's report, however their interests may be represented by a charity/politicians/lobbyists (agents) campaigning against child labor and using their position to influence the company's customers.

119. A single report may have multiple groups of users, with potentially different information needs. Not all these users may be the intended users, but it is only the intended users which preparers and practitioners should focus on.
120. A report cannot focus on the particular needs of an individual user, unless there is only a single user, however a preparer may need to consider where individuals within a group of intended users have common interests.
121. ISAE 3000's application material contains some further guidance, including that in some circumstances where there are a large number of possible users, it may be necessary to limit the intended users to "major stakeholders with significant and common interests"³⁵. This might be

³⁴ The 'intended users' are defined by the International Framework for Assurance Engagements as the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report (paragraph 35).

³⁵ ISAE 3000 (Revised) paragraph A16

useful, subject to any particular requirements in the EER framework, where reports are published without specifying the intended users, effectively for the benefit of global society.

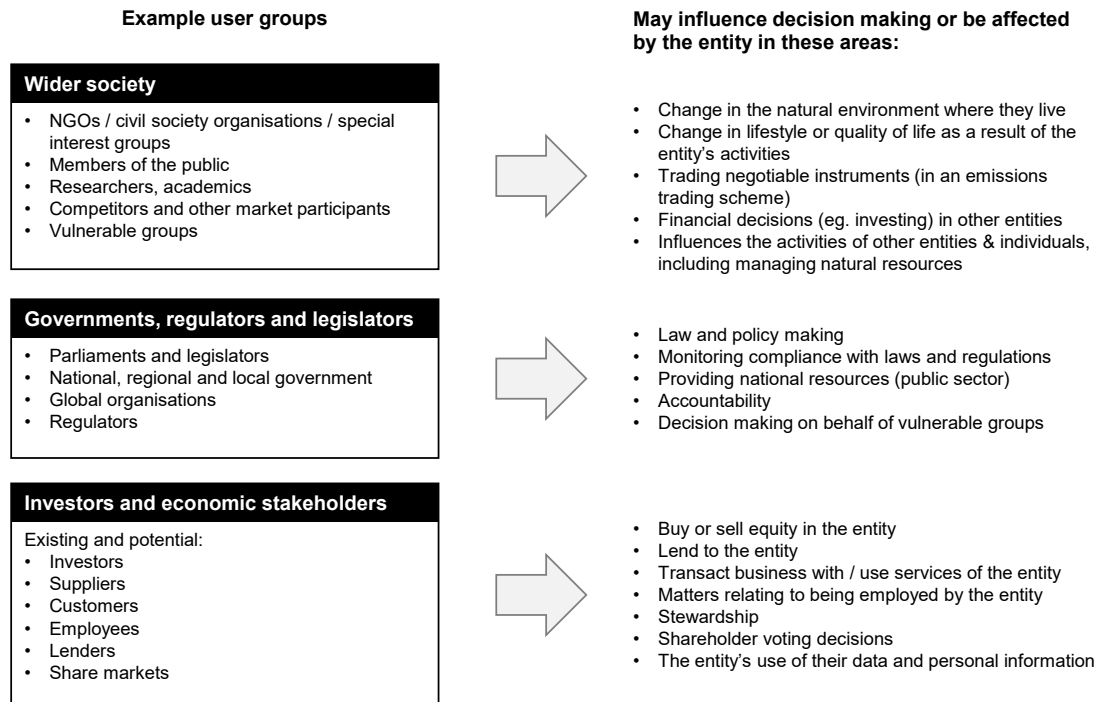
EXAMPLE

A report by a state-run hospital reporting on its clinical performance might have users including:

- Government – needs to know whether citizens are being provided with adequate healthcare and whether resources are being used efficiently.
- Groups of patients (current or potential), the general public and the wider world – want to know whether the hospital is available to provide care to the community, playing its role in controlling diseases, and if it is clinically safe.
- Cancer patient – self-interest about whether the hospital has the capabilities to treat them successfully.

In this example, the top two user groups might be the intended users, but the individual patient would not be.

122. Different intended user groups may interpret materiality differently; something which is material to one group of intended users may be trivial to another.
123. Merely reading the information in the report is a valid use by an intended user; the outcome may be that they make a decision to take no action based on the information reported. They would still have a legitimate need for the information to reach that conclusion and so materiality does not depend on an intended user taking action from the reported information.
124. Some examples of possible user groups are included in the table below – this is not intended to be an exhaustive list, but it could be considered by preparers as a starting point for identifying the intended users of their report by potentially selecting some from the below table and adding entity-specific user groups. It is not necessary for preparers or practitioners to create a detailed list of the intended users – the aim is to have an awareness of the broad groups of intended users as context in materiality judgments.



Step 2: Review the list of relevant topics and related elements

125. Taking into account the reporting framework(s) used, the purpose of the report and the intended users, preparers would often create a list of topics and related elements which are relevant to users' decision-making in the context of the underlying subject matter.

126. Key judgment for the practitioner:

How effective was the preparer in identifying relevant topics and related elements as part of their process and are there other matters the practitioner considers should have been on that list?

127. Topics and related elements are relevant if they contribute to achieving the purpose of the report for the intended users.

128. When testing whether the list of relevant topics and related elements is complete, practitioners could refer to some of these sources:

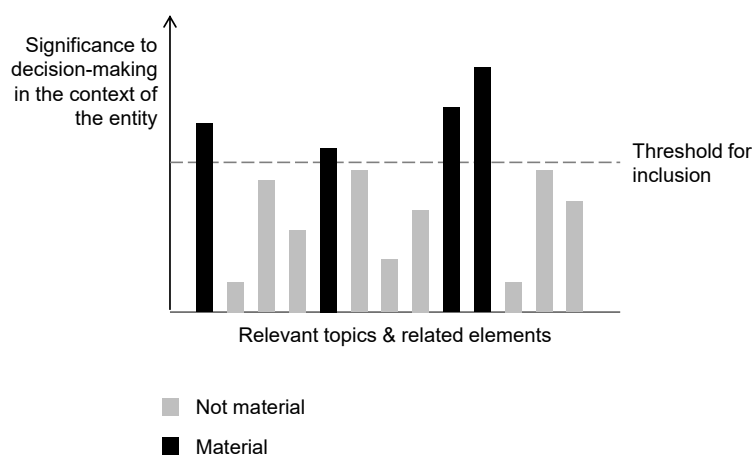
- Discussions with management and those charged with governance
- Previous reporting by the entity

- Reporting by peers and competitors
- Strategy documents prepared by the entity
- Survey results (of the entity, peers or the industry)
- Interviews with stakeholders, outreach activities, stakeholder engagement
- Web and social media searches
- Global megatrends
- Sustainable Development Goals
- Agendas and minutes from board or senior management meetings and committees
- Risk assessments

129. Stakeholder engagement activities can be an important part of a preparer identifying material topics and related elements, and then assessing their materiality. An open dialogue with stakeholders will give better results than passive interaction or asking them to comment on an existing list of topics and related elements, however there is a need to adequately inform stakeholders about the entity and its activities to enable them to engage effectively with the process.

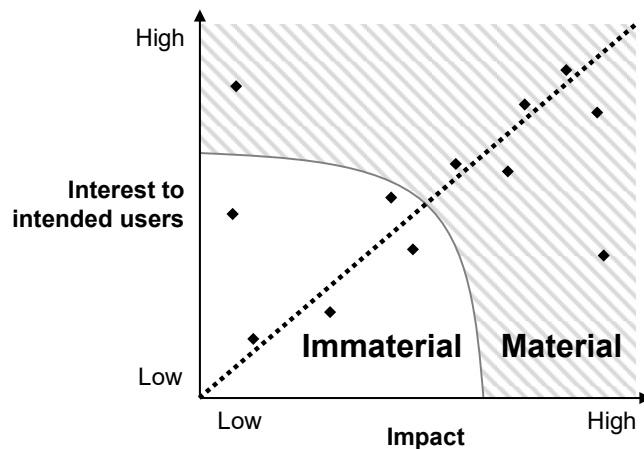
Step 3: Review selection of material topics and related elements

130. Once preparers have a list of relevant topics and related elements, they then select those which are material and should therefore be included in the report.



Practitioners need to understand the report's purpose, the intended users, and any reporting framework being used as context for assessing the materiality judgments made by the preparer.

131. One means of assessing how material something is by considering both its 'impact' and the level of interest of intended users. These two variables can be portrayed as axes on a scatterplot.



132. '*Interest to intended users*' is the extent to which information could reasonably be expected to influence decision-making by intended users. This could reflect the extent to which the intended users perceive something will impact them. The collective views of intended user groups as a whole should be plotted at one point on the axis.
133. With reference to the 'interest to intended users' axis, something is more likely to be material if:
- It is likely to cause investors to buy or sell equity in the entity
 - It is likely to change the value of the entity's share price or enterprise value
 - There has been media coverage relating to it, or disclosure of it would likely result in media interest (local / national / global?)
 - There have been a large number of complaints relating to it (e.g. from customers, suppliers or other stakeholders)
 - It has been mentioned unprompted by several stakeholders
 - There is a high level of wider societal interest in it, or particularly high levels of public sensitivity

EXAMPLE

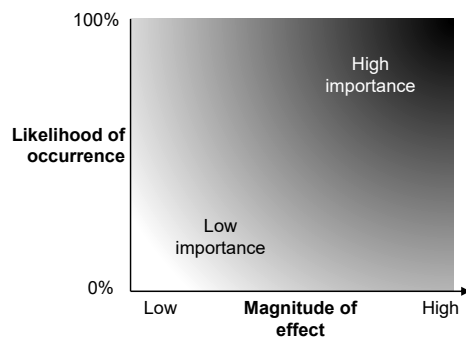
A few examples in some circumstances might include human rights issues, corruption, amounts of tax paid in jurisdictions of operation, and executive remuneration.

- g) It is known to be an area of interest of stakeholders based on the preparer's prior experience and awareness
 - h) It relates to an area of interest in the industry which may be widely reported by peers and competitors in the entity's sector
 - i) It relates to non-compliance with relevant laws, regulations, international agreements, or voluntary agreements with strategic significance to the organization and its stakeholders
134. *'Impact'* refers to the extent to which the preparer anticipates something will impact on the entity's performance (in achieving its strategic objectives) or will impact on other entities (how the entity's activities are anticipated to affect other entities). This impact could occur either directly due to the actions and decisions of the entity's management, or by the direct or indirect effect of forces external to the entity [example to be added].
- Reference to 'other entities' is intended to include individuals, organizations, wider society or the environment as is relevant in the context of the report's purpose.
135. With reference to the 'impact' axis, something is more likely to be material if:
- a) It has direct material financial implications (as determined by financial statement materiality thresholds)
 - b) It has major risks or opportunities for the entity (including reputational, affecting the entity's license to operate)
 - c) It has, or will potentially have, a major effect on the entity's operational performance
 - d) It has, or will potentially have, a major effect on other entities' operations or activities
 - e) It has resulted, or will potentially result, in major direct irreversible damage to natural resources or the environment
 - f) It relates to strategic opportunities for the entity to boost competitive position
 - g) It relates to key organizational values, policies, strategies, operational management systems, goals and targets of the entity or its stakeholders

136. The result of the considerations in paragraphs 133 and 135 could be plotted on the scatterplot shown above. The scatterplot may be useful as a tool to compare the relative materiality of topics and related elements. Professional judgment is required to make the decision as to whether something is material or not as the diagram is only an illustration and not a numerical or mathematical model.

Refer to paragraphs 278 to 281 for relevant background context on this approach in Section II.

137. The scatterplot suggests a topic or related element might be considered material if it had a high 'impact' but was of low 'interest to intended users'. This may represent a common reality where intended users have imperfect or incomplete information about the entity and are not fully aware of the high impact topic or related element. Alternatively the time horizon of interest to intended users may be different to that of the entity or its management (see paragraph 140) causing there to be a disconnect between the level of 'impact' and 'interest to intended users'.
138. The position on either axis may be influenced by the likelihood of an event or circumstance occurring, and the magnitude of its interest to intended users, or of the impact, if it were to occur. This can be illustrated on a further diagram:



- a) If something is certain or factual, its likelihood of occurrence is at the maximum level and the magnitude is the only variable.
 - b) The likelihood assessment should take into account whether a matter is inside or outside the control of the entity / management.
 - c) The position on this scatterplot can be used to assist in determining the appropriate position on either of the axes of the scatterplot shown in paragraph 131.
139. Careful consideration should be given to information which may be material to intended users in understanding or in making predictions or developing expectations about the future.

EXAMPLE

A small hole in a boat may not be a material piece of information about the condition of the boat at a particular time, but it may be material to understanding the risk of the boat sinking in future. Knowing that the hole exists could change the decisions that intended users would make about the risk.

140. The chosen timescale being considered in terms of impact or interest to the intended users must also be taken into account. These may not be consistent, for example some users may be more interested in matters manifesting over the short-term (perhaps for an investor with a short-term intended investment period), and less interested in matters which will have a significant impact on the entity in the longer-term.

EXAMPLE

An example to illustrate this might be an entity owning a factory on low-lying coastal land. Rising sea levels are expected to mean the factory site is unusable in five years' time. As there will be no impact for the next five years, this information will not be material to an intended user with a short-term interest in the entity (e.g. an investor expecting to invest for three years). The issue is more material to a bank who has issued a loan secured on the factory site maturing in ten years' time. The preparer must decide over what timescale they are assessing materiality and make sufficient disclosure of this in the report.

141. Key judgment for the practitioner:

How effective was the preparer in assessing the materiality of the identified topics and related elements? Have all the material topics and related elements been included in the report, and in such a way that they are not obscured by immaterial information?

142. The practitioner uses professional judgement and skepticism to challenge the preparer's judgment, and is advised to particularly focus what the preparer chose to exclude and the reasons for their decisions.

Dealing with confidential information

143. Topics and related elements or information considered to be relevant and material, which the preparer has not included in the report on the basis that it is confidential or would potentially

damage the entity's reputation, should be treated as a misstatement. The materiality of this misstatement should then be assessed as per the guidance in paragraphs 197 to 215, and the practitioner should then respond accordingly. Non-disclosure of such information (either in the report or the assurance report) may be justified in extremely rare circumstances where the adverse consequences of disclosure would reasonably be expected to outweigh the public interest benefits of such communication. There may also be rare circumstances where law or regulation precludes public disclosure of information by either the preparer or the practitioner, for example something that might prejudice an investigation into an actual, or suspected, illegal act.

Considering topics and related elements collectively

144. Topics and related elements should not just be considered individually as there are circumstances where multiple omissions of topics or related elements are in aggregate material.

EXAMPLE

Members of staff leaving may not be material on its own, neither might be a few customer complaints, or the termination of two supplier contracts. However, if when combined, these events turn out to be related and indicate serious problems with the entity's senior management, they may become more material.

Inclusion of immaterial information

145. Despite undertaking a process to identify material topics and related elements, preparers may choose to still include some information which is not material. The appropriate response for the practitioner will depend on the engagement scope, however the inclusion of immaterial information is only likely to be problematic if it is misleading or obscures material information. Intended users may be able to identify and ignore immaterial information³⁶, particularly where it does not contribute anything to the report. However, if it is potentially misleading, the practitioner considers this a misstatement due to an assertion not being present (e.g. the assertion of understandability or relevance), assess how material the misstatement is, and respond accordingly.
146. The most judgment will be required where immaterial topics and related elements are on the border of being material. In these cases, it may not be appropriate for the practitioner to assume that the intended users will identify this information as being immaterial.

³⁶ Based on assumptions (a) to (d) regarding intended users in ISAE 3000 (Revised) paragraph A94.

Disclosure of the materiality process

147. Users are likely to find it helpful in understanding the criteria, to also understand the materiality process the preparer uses in applying the criteria. Accordingly, practitioners may consider it appropriate to encourage preparers to disclose details of their materiality process (either in their report, or elsewhere such as their website), giving details of what has been included in the report and what has been left out.

Obtaining Evidence

ISAE 3000 (Revised) paragraphs 48-60

Building Assertions (Challenge 4)

What is the challenge?

148. The diverse nature of EER subject matter information compared with that contained in financial statements makes it more challenging to develop appropriate assertions.

Introduction

149. Assertions are representations (sometimes referred to as 'truth-statements' or 'claims') that are inherent in the subject matter information. They assert that the criteria have been properly applied to the relevant underlying subject matter. They may be made explicitly or implicitly by the preparer. Independently, the practitioner can deduce them from the criteria and subject matter information. As such, they are used by the practitioner to consider the different types of potential misstatements that may occur in the subject matter information. In this IAEPN, the term 'assertions' is used principally in the context of their use by the practitioner for this purpose. They are conceptually different from the 'written representations' that may be obtained from the preparer in accordance with paragraphs 56 to 60 of the standard.
150. Assertions are a tool which can be used by practitioners to assist in designing assurance procedures which are appropriate in the context of the engagement in obtaining evidence about whether the subject matter information has been prepared in accordance with the criteria, or is misstated. If an assertion is contradicted by the evidence obtained, then it is misstated. If an assertion is neither supported nor contradicted by the evidence, then insufficient appropriate evidence has been obtained to support a conclusion on the truth of that assertion.
151. ISAE 3000 (Revised) does not specifically require the practitioner to use assertions, and it therefore does not prescribe or identify specific assertions to be used, as these may vary from one engagement to another depending on the subject matter and the reporting framework (including the criteria). However, practitioners ordinarily use assertions in reasonable assurance engagements and often do in certain types of limited assurance engagements.
152. Assertions may apply at different 'units of account'. The practitioner designs appropriate procedures to test the assertions for appropriate units of account, in the context of the criteria.

EXAMPLE

Subject matter information about a quality of an element could in some cases be provided for a class of elements that have similar characteristics (e.g. the average time taken to rectify multiple minor breaches of water quality regulations following their discovery), or in other cases it may be appropriate to provide such information for an individual element (e.g. a single major breach of water quality regulations which caused a community's water supply to be cut off).

A suggested starting point

153. When building assertions, practitioners may find it helpful to begin with the required characteristics for suitable criteria. There is a logical flow from these five characteristics (reliability, completeness, understandability, relevance and neutrality) to the characteristics which should be exhibited by subject matter information. The subject matter information is then tested by the practitioner designing procedures to identify misstatements that could be material, with the assistance of assertions. Practitioners may consider how these assertions are relevant in the context of the specific engagement.
154. Practitioners may then consider whether it is appropriate to add additional assertions depending on the specific nature of an engagement and the applicable criteria. These additional assertions may arise from requirements relating to the characteristics of useful information in the reporting framework. Frameworks may use different terminology to refer to such characteristics (for example 'guiding principles').
155. Some examples of assertions which may be applicable for EER engagements include:

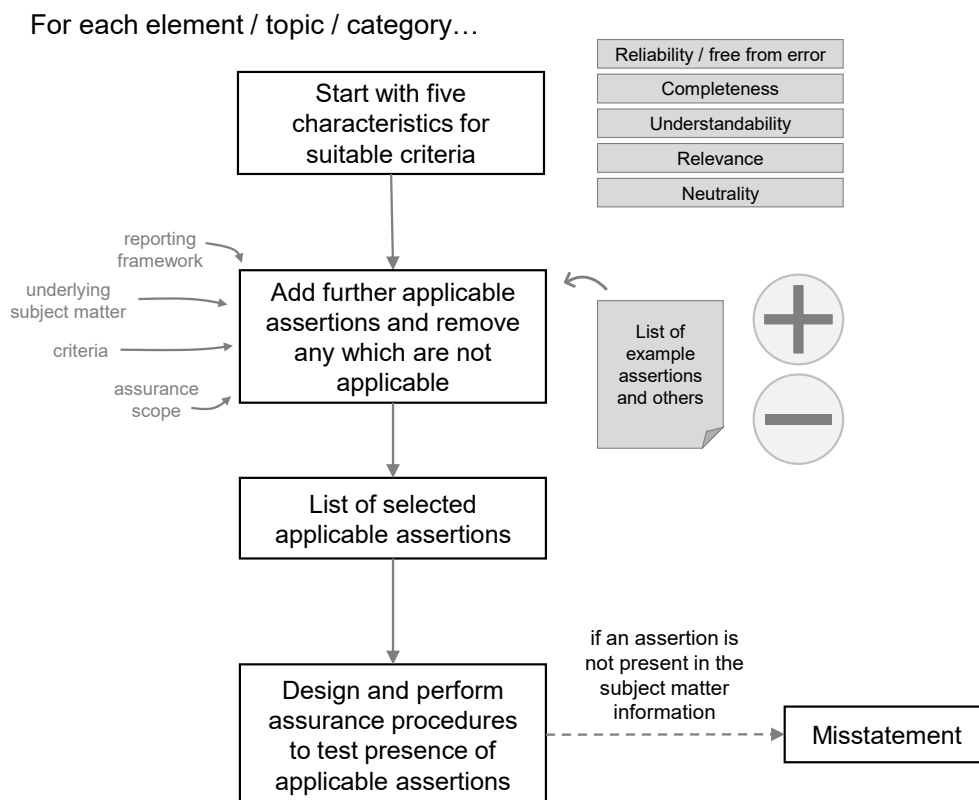
Free from error	Completeness	Understandability	Relevance
Neutrality	Occurrence	Presentation	Existence
Accuracy	Cutoff	Comparability	Classification

This is not intended to be an exhaustive list, nor is it expected that all of these examples will apply to a single engagement. The assertions in the list are not in any particular order. The practitioner can select the assertions from the above list that are applicable in the circumstances and add any additional assertions that are also applicable. The assertions that are appropriate for each engagement may vary depending on the reporting framework, underlying subject matter, criteria and assurance scope.

Refer to the paragraphs 263 to 267 in Section II of this IAEPN for details of how this list has been developed.

156. Neutrality (or ‘freedom from bias’) may not necessarily be identified as a separate assertion as this requirement is additive with all other assertions. For example, there is a need for the report preparers to ensure that the resulting subject matter information is not biased when deciding which topics and related elements should be addressed in the report (additive to the ‘completeness’ assertion). Again, a preparer should ensure that the resulting subject matter information is not biased in measuring elements that require subjective judgments (additive with the ‘free from error’ assertion).

Use of assertions



157. The practitioner designs assurance procedures to test whether each of the applicable assertions which have been selected is present within the subject matter information. As in a financial statement audit, a single test may be designed to test the validity of more than one assertion. The extent and nature of procedures should be informed by the practitioner’s assessment of the risks of

material misstatement in the engagement as well as the assertions that have been identified. The practitioner then executes the procedures as designed.

158. When an identified assertion is not present in subject matter information when it is tested, the information is misstated. Some examples of different types of possible misstatement include:
- a) Omission of information (failure of a 'completeness' assertion)
 - b) False claims in information (failure of an 'existence' or 'occurrence' assertion, or of a more general 'free from error' assertion)
 - c) Misleading or unclear representation of information (failure of an 'understandability' or 'presentation' assertion)
 - d) Bias in information so that positive aspects of performance are focused on and negative aspects are omitted (failure of a 'neutrality' or 'presentation' assertion)
159. If a practitioner identifies a misstatement, they are required to make a judgment as to whether the misstatement is material which will then determine the appropriate action.

Refer to paragraphs 197 to 215.

Obtaining Assurance of Narrative Information (Challenge 6)

What is the challenge?

160. Narrative information is commonly understood to be subject matter information expressed using words rather than numbers. These words may or may not be part of telling the 'story' (or 'narrative') of an entity. The information is typically qualitative rather than quantitative.
161. Narrative information in EER reports may be:
- a) factual (directly observable and therefore more readily captured by the reporting system); or
 - b) inherently subjective (not directly observable and susceptible to being more reflective of, and more variable with, the views of those reporting it).

See examples in paragraphs 171 and 172.

162. Narrative information that is not factual is subject to management judgment and may be more susceptible to management bias. The key challenge in relation to narrative information is how to address the inherent subjectivity and increased risk of management bias and to manage potentially unrealistic expectations that the practitioner can reduce the degree to which the subject matter information is affected by inherent subjectivity.

Specific considerations for assessing the suitability of criteria

163. Subject matter information expressed in words may result from criteria representing different qualities of the subject matter elements compared to numerical subject matter information or metrics, however the requirements for criteria to be suitable remain the same.
164. Reliable criteria for narrative information would be well-defined and therefore unambiguous so as to allow reasonably consistent measurement or evaluation of the underlying subject matter.

EXAMPLE

To fulfil criteria requiring an entity to report the aspects of its strategy that will help it achieve its principle objectives, an entity may report that it has a policy to prioritize providing high standards of service to its customers. The criteria behind this information appear to be insufficiently defined as the information is ambiguous (hence the criteria and subject matter information would not be reliable). It is unclear whether the entity merely has a policy in place (either formally written or not), or if the entity is making a statement about their behavior or the effectiveness of the policy.

165. It is particularly important for narrative information that the criteria result in subject matter information which is understandable (including being unambiguous as to its intended meaning) and neutral, as subject matter information in narrative form may be at more risk of failing to exhibit these characteristics. This is often because words are harder to interpret than numbers and are inherently more ambiguous in their meaning and definitions. Most importantly, the criteria must not result in subject matter information which is misleading to the intended users.

EXAMPLE

The criteria require an entity to report its principal achievements in the year. A simple statement such as “We won the award for Best Company of the Year” could be technically free from error, but still be misleading if:

- The award relates to the company’s operations in only one small jurisdiction and not the whole company.
- The award was not awarded by a well-recognized and respected body, independent to the company.
- The award was not the result of a fair competition, for example if not all companies were eligible.

In such circumstances the practitioner may conclude the criteria are not suitable.

Refer to paragraphs 60 to 104 for guidance on suitable criteria.

Specific considerations for materiality decisions

166. Evaluating whether subject matter information in narrative form is free from material misstatement will require use of the materiality considerations in paragraphs 202 to 205 as numerical thresholds are not appropriate.
167. When evaluating a misstatement within narrative subject matter information, whether factual or subjective, the same considerations can be used to assess whether the misstatement is material, focusing on whether the misstatement will affect decision-making by the intended users. One of the main considerations is about whether the misstated subject matter information will mislead the intended users, and if this is considered likely, the misstatement will in most cases be considered material.

Refer to paragraphs 197 to 215 for guidance on materiality.

Specific considerations for building assertions

168. Different assertions may be applicable or more important for narrative information compared to numerical subject matter information, however this will depend on the criteria and any frameworks being used. Even in situations where the same assertions are applicable, there may be more focus on assertions such as understandability and comparability for information in narrative form.

169. Prior to identifying the applicable assertions, it may be necessary to identify narrative information packages (which together provide representations of individual elements or groups of them), taking into account how the assertions relating to that information will be tested. Individual claims in the subject matter information can be individually material to the representation of a particular element or group of elements, and can be tested separately. However, identifying packages of information in the way suggested here may enhance the efficiency and effectiveness of design of procedures to test the most relevant claims about the most relevant elements or groups of elements, giving greater focus to the most significant assertions.
170. For example, it may be appropriate to consider individual sentences separately, or in other circumstances a paragraph of text comprising related information could be considered together. Practical means of doing this may include highlighting the text in different colors or by drawing boxes around packages of narrative information and referencing the assurance working papers to them. The practitioner then can identify the assertions applicable to each representation or package of narrative information and consider their relative significance. Text solely comprising immaterial information can in most cases be ignored, subject to the considerations in paragraphs 145 and 146.
171. Purely factual narrative subject matter information is more straightforward to test for misstatement (by direct observation) than subjective narrative subject information. The practitioner's primary focus is on whether the subject matter information is correct or incorrect (free from error assertion), although other assertions such as completeness and neutrality may also be a consideration.

EXAMPLE	Examples of purely factual narrative subject matter information:
	<ul style="list-style-type: none"> • "An audit committee comprised of non-executive directors was established in the year" • "We bought a factory in Canada"

172. More judgement is required by practitioners to test assertions for subjective narrative subject matter information. This is because the information cannot be directly observed, and its preparation is the result of an indirect process which the practitioner must then verify. Whether the subject matter information is neutral and free from bias becomes more of an area of focus for the practitioner due to the subjectivity. As noted in paragraph 156, neutrality may be identified as a separate assertion or as a requirement additive to all other assertions.

EXAMPLE

Examples of subjective narrative subject matter information:

- “We produce healthy food for children”
- “Our impact on the environment is minimal”

173. Even subject matter information which appears to be factual may contain ambiguity and give rise to subjectivity in its interpretation arising from imprecision in the meaning of words. This could result from criteria that are not sufficiently reliable. In the example above of buying the factory, this could be interpreted by some to mean buying an empty building, and by others to mean a fully operational facility.

Refer to paragraphs 148 to 159 for guidance on building assertions.

174. [Further guidance in relation to challenge 6 to be developed in phase 2]

Obtaining Assurance of Future-Oriented Information (Challenge 7)

What is the challenge?

175. Future-oriented information is found in some EER reports in a few different forms. It addresses future conditions, events, outputs and outcomes (performance or impact), in relation to which there is generally greater measurement or evaluation inherent uncertainty and these matters may therefore be more difficult to represent simply and unambiguously. The subjectivity that results from such uncertainty means that a process is ordinarily required to measure or evaluate such elements indirectly, using a process, since direct observation is not possible. Even when EER frameworks address the type of future-oriented information that is relevant to include in an EER report, they often do not address the boundaries of acceptable assumptions made in applying the process to make the measurements or evaluations that give rise to the subject matter information. A key challenge is that there may not be suitable criteria and an assurance engagement may not be possible unless, for example, the scope of the assurance engagement is restricted to obtaining evidence about the process used in arriving at the future-oriented information. Such evaluation may result in a conclusion that:

- a) it is not possible to obtain sufficient appropriate evidence on the future-oriented information itself;
- b) the scope of the assurance engagement should be restricted to obtaining evidence and providing an assurance conclusion about the process used in arriving at the future-oriented information and whether the future-oriented information is presented in accordance with the applicable criteria; or
- c) there are no suitable criteria at all.

Types of future-oriented information

176. EER may contain a variety of different forms of future-oriented subject matter information which may fall into one of these categories:

- a) Information predicting the future. This may include forecasts, projections, and information about future risks and opportunities.
- b) Information regarding the entity's intentions or future strategy.

177. In all cases, the subject matter information will be the result of applying criteria to the underlying subject matter which require description of the future state or condition, or a future change in state or condition over time, of a subject matter element.

EXAMPLE

If the subject matter element was a forest under the control of the entity, the subject matter information might describe a forecast of the expected average growth of the trees over the next five years (future change in state over time), or the expected average height of the trees in five years' time (future state).

The subject matter information might also describe the future risks of disease affecting the forest (which would change the future condition of it), or the entity's future intentions to chop down parts of the forest (again changing the future condition of it).

178. Future-oriented subject matter information may describe things which will be subsequently observable or hypothetical things that will never be observable. For subsequently observable future-oriented information, it will be possible at a later point in time to observe the precision with which the forecast, prediction, or intention reflected the subsequent reality, i.e. the extent to which anticipated and unanticipated future risks or opportunities materialized. Hypothetical information

includes a condition on the forecast, prediction or intention. For example, a forecast could be made, conditional on an entity winning a particular contract, that the entity's profit would increase 5% next year.

EXAMPLE

The difference between observable and hypothetical subject matter information is illustrated by the difference between a forecast and a projection (as based on definitions in ISAE 3400, paragraphs 4-5):

A **forecast** is prepared on the basis of assumptions as to future events which management expects to take place and the actions management expects to take as of the date the information is prepared (best estimate assumptions).

A **projection** is based on hypothetical assumptions about future events and management actions which are not necessarily expected to take place, or a combination of hypothetical and best estimate assumptions. Such information illustrates the possible consequences as of the date the information is prepared if the events and actions were to occur. This may be known as a scenario analysis.

179. As with narrative information, some future-oriented information is factual and therefore does not contain any degree of uncertainty, for example the debt maturity profile of an entity which is determined by contractual terms. An alternative example is where future-oriented information is repeated from an external source (for example, a central bank's inflation forecast), as the claim being made by the preparer is likely to be that a third party has said something, which itself is observable and probably not uncertain.

As assuring this type of information is not considered to pose a particular challenge for practitioners, the remainder of this section of the IAEPN only considers subjective forward-looking information.

Specific considerations for assessing the suitability of criteria

180. Future-oriented information results from applying criteria to the underlying subject matter, just like any other subject matter information. However, the criteria will ask different questions about the subject matter elements, often asking for description of the future state or condition of the element, or a future change in state or condition over time (see paragraph 177 for an example).
181. Whether the criteria from which future-oriented information results are suitable or not can be assessed in the same way as any other criteria as described in paragraphs 60 to 104.

182. For subjective future-oriented information, the criteria may need to require detailed description of the assumptions and the level of uncertainty in order to be suitable. It may still be possible to provide assurance over uncertain subject matter information if it is supported by adequate disclosure such that the subject matter element is faithfully represented to the intended users.
183. Criteria may require information about the future to be used to measure or evaluate a current or past condition of an element, for example in the way that current financial value might be measured using forecasts of future cashflows. This would then result in subject matter information which was historically-oriented (as it would be value at a balance sheet date in the past), and therefore this is not future-oriented subject matter information which is the focus of this part of the IAEPN.

It is possible that supporting disclosures of such subject matter information might themselves be future-oriented, for example explaining assumptions made by reference to a forecast. This however can be treated as one of the categories of future-oriented subject matter information in paragraph 176.

Specific considerations for materiality decisions

184. The materiality of future-oriented information can be assessed in much the same way as historically-oriented information.
185. The degree to which the subject matter information reflects inherent uncertainty about the outcome of the measurement or evaluation process is an important factor in considering materiality. Inherent variation in measurement or evaluation outcomes does not in itself constitute a misstatement but omitting information about that variation and the underlying uncertainty could affect decision-making by intended users, and hence could be a material misstatement. Just because some future thing inherently cannot be measured or evaluated within a range of predicted outcomes that, if known, could affect decision making and would therefore be considered material, does not mean that the criteria are not suitable, if there are additional criteria for appropriate presentation and disclosure about the nature, sources and extent of the uncertainties.
186. Decision-making in relation to future uncertainty can also be supported by the provision of relevant historically-oriented information with predictive value to allow intended users to make their own judgments. A forecast or prediction by the preparer is not always necessary to meet intended users' needs.

EXAMPLE

An entity is due to launch a new product. Rather than disclose a forecast of sales, the preparer states that when new products have been launched over the last five years, sales have always exceeded 200 units per week after the first three months. This historical fact includes an implicit statement of persistence which gives the information a predictive value. In some circumstances this historical factual information may be more valuable to intended users than a subjective forecast.

EXAMPLE

Indicators of the wider 'health' or value of the organization at the reporting date, for example employee engagement scores or brand value, can be useful information for intended users to form their own view on the future prospects of the entity.

187. When dealing with future-oriented information, the relevant timescale being considered becomes important when making materiality decisions (refer to paragraph 140). In most cases, the level of uncertainty increases the further into the future the information relates to.

Specific considerations for building assertions

188. Assertions for future-oriented subject matter information are likely to be similar to historically-oriented subject matter information with inherent measurement or evaluation uncertainty, and therefore the guidance in paragraphs 148 to 159 is broadly applicable. Where future-oriented information is more subjective, assertions such as neutrality may become more important due to the risk of management bias. Presentation or understandability assertions may also be important where good disclosure of assumptions and the context of subjective information is necessary.
189. Where criteria require a statement of intended future strategy, a target, or other intentions of an entity, the main relevant assertion which a practitioner can test is whether management or those charged with governance have an intention to follow that strategy or that the target or intention exists (existence assertion). Appropriate evidence could be obtained in the form of documentation of board meetings or actions that management have already taken to work towards adopting the strategy or agreeing the target. A practitioner is unlikely to be able to perform an engagement to assure whether the intended outcomes of the strategy or the target will be achieved or not.
190. Similarly, where criteria require relevant future risks and opportunities to be reported, the relevant assertions will likely include whether the risks and opportunities exist (existence assertion) and whether the list of risks and opportunities is complete (completeness assertion). The existence

assertion is closely related to the concept of identifiability. A practitioner may not be able to perform an engagement to assure whether the risks and opportunities will materialize or not, however it may be possible in some circumstances to assure information about the nature of the risks and opportunities, for example their likelihood or potential impact. Whether this is possible will depend on whether the exact criteria are suitable and the availability of appropriate evidence.

191. Subject matter information predicting the future (for example, forecasts, projections and predictions) relates to events and actions that have not yet occurred and may not occur, or that have occurred but are still evolving in unpredictable ways. While evidence may be available to support the assumptions on which the subject matter information is based, such evidence is itself generally future-oriented and, therefore, speculative in nature, as distinct from the evidence ordinarily available in relation to historical events and conditions. The practitioner may therefore not be in a position to express an opinion as to whether the results or outcomes forecasted, projected or predicted will be achieved or realized.

However, they may be able to form an assurance conclusion regarding the process used in arriving at the future-oriented information. Specifically, the practitioner may be able to undertake an engagement where the scope is to assess and conclude whether:

[examples are still under development]

	<i>Possible relevant assertions</i>
a) The preparer's best-estimate assumptions on which forecasts are based are not unreasonable, and in the case of hypothetical assumptions in projections or scenario analysis, such assumptions are consistent with the purpose of the information.	Occurrence, Completeness, Relevance, Neutrality
b) The subject matter information is properly prepared on the basis of the assumptions. This will involve, for example, making clerical checks such as recomputation, and reviewing internal consistency.	Accuracy, Completeness
c) The subject matter information is properly presented in accordance with the applicable criteria, and all material assumptions are adequately disclosed, including a clear indication	Presentation, Understandability

as to whether they are best-estimate or hypothetical assumptions.

- d) The subject matter information is prepared on a Consistency
consistent basis with previous reporting by the
entity, where appropriate.

192. [Further guidance in relation to challenge 7 to be developed in phase 2]

Performance Materiality (Challenge 3)

[section still under development]

193. The practitioner may apply the concept of performance materiality to determine the extent of assurance procedures and identify the items to test. The aim is to perform sufficient procedures to obtain the required level of assurance that all material misstatements have been detected.
194. As in a financial statement audit, when designing assurance procedures, practitioners are required to test information to reduce to an appropriately low level the probability that the uncorrected and undetected misstatements could be aggregated such that the information as a whole is materially misstated. This requires looking for misstatements that are not individually material as well as those which are.
195. Use of performance materiality thresholds to set the extent of assurance procedures is more complex for non-financial information than it is in a financial statement audit and requires judgment by the practitioner. Misstatements relating to one topic or element might interact with and affect others relating to other topics or elements, hence it is necessary to consider misstatements individually as well as in the context of related information.

EXAMPLE

A report describes how a series of controls are operating effectively, however the practitioner identifies that one is not and that there is a deficiency. This is considered to be significant (not clearly trivial), however it is not individually material as there are other compensating controls operating effectively.

The practitioner later identifies a deficiency in an unrelated control, which again is considered significant but not individually material. However, it is concluded that both deficiencies considered together indicate a weakness which is deemed to be material to the intended users.

Refer to paragraphs 197 to 215 for further guidance on accumulating and considering misstatements.

196. When information is entirely in narrative form, procedures may include reading sections of the report as a whole and considering the overall messaging being presented to intended users as well as testing individual sentences and pieces of subject matter information.

Forming the Assurance Conclusion

ISAE 3000 (Revised) paragraphs 64-66

Evaluating whether subject matter information is free from material misstatement (Challenge 3)

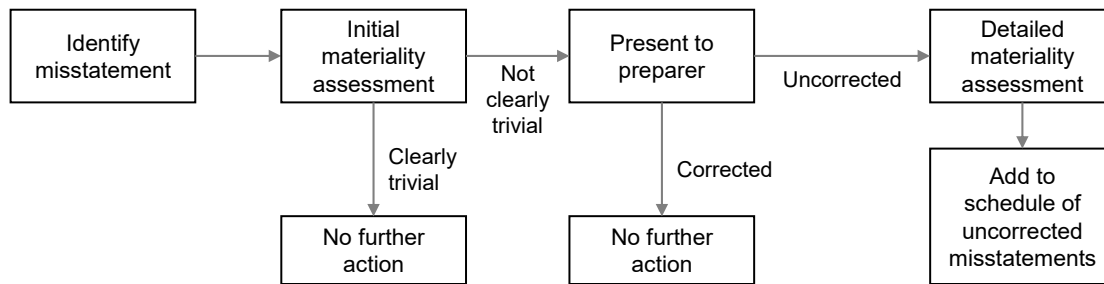
Evaluating misstatements

197. If during the assurance engagement the practitioner identifies a misstatement within subject matter information included in the report for material topics and related elements (arising when an applicable assertion is not present), they are required to make a judgment as to whether the misstatement is material.
198. Misstatements in different circumstances will need to be evaluated in different ways given that subject matter information in EER takes such a variety of forms (e.g. quantitative and qualitative, different units of account).
199. For parts of subject matter information which are quantitative (e.g. a KPI expressed in numerical terms), the starting point for materiality decisions is to establish materiality thresholds, often by using a percentage³⁷. If the EER framework specifies a percentage threshold for materiality, it may provide a frame of reference to the practitioner in determining materiality for the engagement. For historical financial information which has been subject to an audit, it may be appropriate to use the materiality threshold used for the audit.

Practitioner responsibilities

200. Having identified a misstatement, the practitioner makes an initial materiality assessment to conclude whether it is clearly trivial or not. Where the misstatement is not clearly trivial, the practitioner presents it to the preparer who then has the opportunity to correct the misstated information.
201. If the preparer does not want to correct the misstatement, the practitioner undertakes a more detailed assessment to assess how material the misstatement is, taking into account the considerations below.

³⁷ There are instances where this would not be appropriate, perhaps where the number is very small (for example, number of fatalities).



Materiality considerations

202. Below is a series of ‘materiality considerations’ which a practitioner can use when undertaking an initial or detailed materiality assessment. These are examples of things that might be relevant to consider when assessing whether a misstatement is material. The assessment requires consideration of whether the intended users would make a different decision if the subject matter information was not misstated. Misstated information which would affect decision-making means the misstatement is material. These considerations are not exhaustive; ultimately, professional judgment will be required to conclude based on the specific circumstances.

203. A misstatement is more likely to be material if:

Underlying subject matter

- a) The misstated subject matter information relates to a topic or category of underlying subject matter which has been assessed as being highly material.

Refer to Step 3 of the guidance relating to assessing the materiality of underlying subject matter topics – paragraphs 130 to 142.

External factors

- b) The misstated information relates to non-compliance with a law or regulation, particularly where the consequence for non-compliance is severe.

EXAMPLE

An instance of non-compliance with an important regulation which attracted a large fine is more likely to be material than one where there was no significant penalty.

- c) A large number of people or entities (whether they are intended users or not) are affected by the misstated information.

Nature of the subject matter information

- d) It is a key performance indicator known to be used by intended users which is misstated, perhaps which is commonly used to compare the entity to its peers.
- e) Is in information reporting performance in relation to a target or threshold, where the magnitude of the error is comparable to the difference between the actual outcome and the target.

EXAMPLE

One of the performance targets determining a Chief Executive's bonus is achieving a customer satisfaction score of 75% or higher. The reported achieved score was 77% however this was found to be overstated by 3 percentage points, meaning the target was actually not met. It is likely that the misstatement in these circumstances would be material.

If however, the target was 90%, the misstatement may be considered to be less material as the target was not reported to be achieved even though the score was incorrect.

- f) The misstated information is reporting a significant change in a previously reported position, or a trend which has reversed.

Presentation

- g) It is a presentational misstatement which has arisen from subject matter information being misleading and the wording which has been used lacks clarity such that it could be interpreted in widely different ways. Accordingly intended users might make different decisions depending on their interpretation.

Preparer's actions

- h) The misstatement has arisen as a result of an intentional act by the preparer to misrepresent or mislead.
- i) The preparer is reluctant to correct the misstatement for reasons other than they consider it immaterial.

204. The majority of the considerations listed as examples in paragraph 203 apply to both quantitative and qualitative information. For information which is quantitative, the factors can be used to set the materiality thresholds, which determines what level of error will be tolerated. For qualitative information, the factors similarly help practitioners decide whether a misstatement is material based on the level of sensitivity of intended user decision-making to such a misstatement.
205. Knowing the context is important before making materiality judgments – for example understanding the objective/purpose of the disclosure, and how a piece of subject matter information has been measured. The practitioner can then consider whether (i) the disclosure is consistent with the objective, and (ii) whether it is clear and understandable.

In assessing whether something is clearly disclosed, it may be helpful to consider whether the following attributes of the item are included if appropriate:

- a) The risks
- b) Level of uncertainty
- c) Impact (on decision making or on resources)
- d) Comparative information

If these attributes are not clear there is a greater risk of a misstatement.

Overall materiality

206. The practitioner is unlikely to be able to set an overall materiality (ISAE 3000, paragraph A98) for many EER engagements because the subject matter information very often does not have a common unit of account.

Accumulating misstatements

207. The practitioner is unlikely to be able to accumulate misstatements and consider them together in the same way as a financial statement audit for a report comprising diverse and varied underlying subject matter. However, the practitioner still needs to consider whether assertions relating to the report as a whole have been met, where such criteria apply in the context of the engagement.
208. A practitioner accumulates all the uncorrected misstatements identified during the engagement, other than those that are clearly trivial, on a schedule so that they can be easily assessed

collectively³⁸. While it will not be possible to add up non-numerical misstatements, or those relating to different elements, the misstatements can be grouped according to the categories, topics and elements in the report. Alternatively, the misstatements could be grouped according to the type of misstatement or the assertion which was not present. Misstatements of subject matter information in narrative form will need to be succinctly described.

- 209. It may be helpful for the practitioner to give each of the misstatements a rating (for example, low / medium / high) to indicate the severity or materiality of the misstatement, particularly where the misstated subject matter information is in narrative form.
- 210. The practitioner may consider whether each of the misstatements has a financial impact, even if this cannot be quantified.
- 211. It may be appropriate for the practitioner to consider whether the misstatements identified affect any other parts of the report (both those parts within and outside of the assurance engagement scope) and look for any contradictions or inconsistencies.
- 212. The practitioner is required to make an overall conclusion on the report as to whether the uncorrected misstatements are in aggregate material or not and hence whether the subject matter information is free from material misstatement³⁹. Where the subject matter information is materially misstated, the practitioner is required to follow the requirements in ISAE 3000 (Revised) paragraphs 74, 75 and 77.

Measurement uncertainty

- 213. When measurement or evaluation uncertainty means there is inherent variability in subject matter information, this does not affect materiality considerations. Higher measurement uncertainty also does not necessarily lead to an increased risk of misstatement.

[Example to be added]

- 214. Subject matter information with inherent variability may be sufficiently accurate if it is as precise as it reasonably can be and information about the inherent uncertainty is also disclosed. Supporting disclosures can give important context necessary to help the intended users understanding the uncertainty. Without this, the criteria might not be suitable, and the subject matter element may not be faithfully represented.

³⁸ ISAE 3000 (Revised) paragraph 51

³⁹ ISAE 3000 (Revised) paragraph 65

215. When measurement uncertainty is not inherent, it may give rise to misstatements.

Preparing the Assurance Report

ISAE 3000 (Revised) paragraphs 48-60

Communicating Effectively in the Assurance Report (Challenge 10)

216. [Guidance to be developed in phase 2]

Section II - Background and contextual information

Introduction to Section II

217. Section II of this IAEPN provides background and contextual information which practitioners may find it is helpful to understand in applying the guidance provided in Section I (“the guidance”). It explains general concepts underlying EER reports, as a form of subject matter information, and how these relate to key assurance concepts reflected in ISAE 3000 (Revised). Much of this section relates to the role of a preparer of such reports, rather than to the role of a practitioner. However, an appropriate understanding of the nature of the preparer’s role in preparing an EER report, and how it relates to assurance concepts, is likely to assist practitioners in performing effective EER assurance engagements.
218. Where possible, the explanations of general concepts in this section draw comparisons between EER and more established forms of reporting, as well as comparing and relating the manifestation of these concepts in some major EER frameworks. The section also includes some material that explains certain aspects of the guidance in Section I, in further detail.

The general concept of an EER report

Introduction

219. EER encapsulates a wide variety of types of reporting by companies and other organizations. However, in general terms, an EER report describes particular qualities of particular elements that are associated with a particular underlying subject matter (‘subject matter elements’ or ‘elements’). Primary qualities may have their own qualities (or aspects). The particulars described, and the underlying subject matter that they are associated with, are those that are relevant to the purpose and users of the report.

Refer to paragraph 233 for examples of ‘elements’, and paragraphs 242 and 243 for examples of ‘qualities’.
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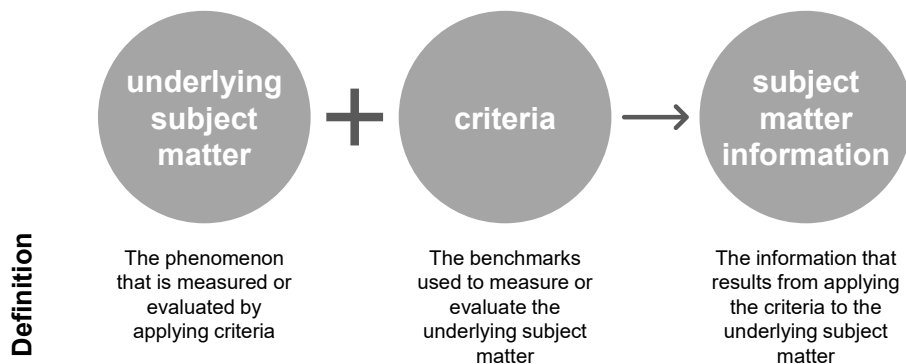
220. The descriptions of qualities of elements included in the report are, importantly, made by reference to the applicable criteria. They are not therefore merely descriptions of unique manifestations of the qualities of each element. Rather, the descriptions reflect a categorization of the elements into relevant well-defined classes, by reference to the manifestations of their qualities. This facilitates a degree of aggregation of the information about elements, which makes it more useful to the users.

221. This general concept of an EER report is perhaps most easily explained by reference to similarities and differences with the corresponding concept for financial reporting (specifically for financial statements), which many professionals may be more familiar with.

Concepts underlying financial statements

222. Financial statements provide information about the financial condition and performance of an entity. This is another way of saying that the underlying subject matter for financial statements is the financial condition and performance of the entity. The information provided in financial statements is primarily about the quality 'economic value' for well-defined financial statement subject matter 'elements' ('financial statement elements'). This is because that quality of those elements is of primary relevance to the purpose and users of financial statements.
223. The defined financial statement elements are:
- a) The entity's economic resources and claims on those resources (for example, assets and liabilities); and
 - b) The transactions, other events and conditions (for example, sale or purchase transactions, or an agreement to purchase a property), the effects of which cause changes in the entity's economic resources and claims (for example, settling an expense incurred may reduce the entity's cash).
224. Financial statements represent the economic value of the financial statement elements, by describing it, in words and numbers, in the primary statements or in the notes. The criteria, by reference to which the economic value is described, include an established measurement basis (the particular concept of economic value), which is usually set out in accounting standards. When observation is not sufficient to do this, the criteria may also include a conceptually valid process or method to measure the economic value on the measurement basis. Such a method reflects established knowledge and may apply prediction or allocation techniques. The resulting information may be presented in the financial statements at different levels of aggregation, for example by type of asset, liability, income or expense, or by type of activity.
225. The criteria are established in the applicable financial reporting framework (for example, IFRS) or in the entity's accounting policies. The accounting values and related disclosures in the primary financial statements and notes are the subject matter information which results from applying the criteria to the underlying subject matter.

226. In an assurance context, ISAE 3000 (Revised) uses the terms ‘underlying subject matter’, ‘criteria’ and ‘subject matter information’ as defined below⁴⁰, however it does not explicitly address subject matter elements or their qualities and does not use these terms.



Paragraph 63 provides examples to illustrate these terms in both financial reporting and EER contexts.

Underlying subject matter

227. The underlying subject matter of an EER report is always closely related to the report’s intended purpose and users. The concepts described above for financial statements are, at a high level, applicable in a similar manner for EER reports. However, underlying subject matter for EER reports is often broader and more diverse than simply the financial condition and performance of an entity.

Paragraph 115 provides examples of a report’s purpose.

228. As a result, the underlying subject matter of an EER report often encompasses a much broader range of elements than the entity’s financial statement elements. It may include elements of significance to the entity that do not meet the definitions of financial statement elements. Those elements may be of significance because they are of value to it, oblige or commit it, are parts of it, affect its other elements or are otherwise related to it. The underlying subject matter may also include elements associated with the entity’s activities that have an impact on elements that are of significance to other entities, or groups of entities.

Paragraph 233 below provides examples of possible types of elements in an EER context.

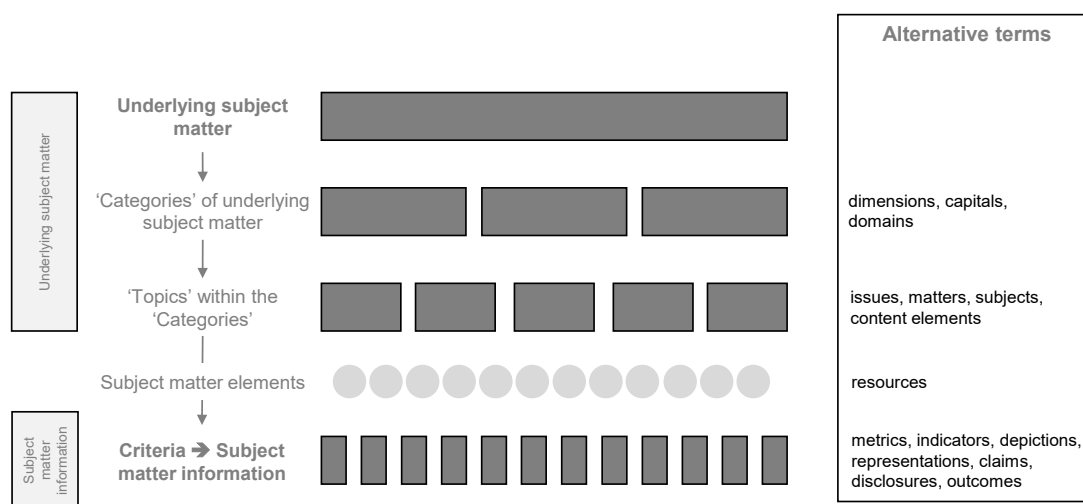
229. A typical EER report may describe some or all of the following:

⁴⁰ ISAE 3000 (Revised) paragraph 12

- a) The elements relevant to the report and their condition at a point in time. This might include the entity itself, or parts of it, and other elements not (or only partly) under the control of the entity;
- b) Changes in relevant qualities of those elements (compared to a time in the past, or a forecast of how they will or may change in the future); and
- c) The elements that cause those changes (e.g., the entity's activities, or other events and conditions).

230. Often, but particularly when the underlying subject matter for an EER report is broader or more diverse, the elements and their defining qualities may be analyzed between general categories (and sub-categories) and specific topics (and sub-topics). This could result, for example, in a hierarchical analysis, recognizing that such categories and topics are often inter-related. Such a hierarchical analysis is useful both in structuring the report to make it understandable to users and in considering the information that should be included in the report to enable it to fulfil its purpose.

231. Established EER frameworks use a range of terms to describe such analysis. Some terms used to describe them in such frameworks are included in the generalized diagram below.



232. It is of note that the terms 'categories' and 'topics' are not explicitly used in ISAE 3000 (Revised). The diagram also reflects the position that 'topics' can relate to more than one 'category' and a piece of subject matter information can relate to more than one 'topic'.

Subject matter elements

233. For EER, the subject matter elements may be very diverse. They might include things within and outside the legal and financial boundaries of the entity, which may be of significance to, or affected by, the entity in operationalizing its strategy and business model. Elements might, for example, include:
- a) natural resources;
 - b) employees;
 - c) customer relationships;
 - d) goods and services provided by other entities or manufactured and delivered by the entity;
 - e) the entity's strategy; or
 - f) the entity's governance, management, risk management and internal control infrastructure, including its policies and procedures, processes and related resources.
234. Subject matter elements may be parts of larger elements or may consist of parts themselves. Not all the qualities of a composite element are necessarily evident in any of its parts. Some qualities emerge only in the larger element. For example, the capability of a control, which consists of a design and a set of implementation and operational steps, does not exist in any of its individual parts.

Boundary of elements addressed in a report

235. Every report has a reporting boundary to determine what is in scope to be addressed in the report.

EXAMPLE

If considering a construction company's supply chain, this includes materials suppliers, as well as subcontractors. Each of the suppliers and subcontractors have their own suppliers and subcontractors and so the supply chain can get extremely long and complex. The reporting boundary determines how far along this chain to go.

236. The boundary of the relevant elements, and their relevant qualities, is determined by reference to the intended users and purpose (intended use) of the report.

Relating elements to categories and topics

237. Particularly where a report addresses a broad and diverse underlying subject matter, it is likely to address a broad and diverse range of elements covering many different categories and topics, as described above. In these cases, it may be helpful, both in preparing the report and in understanding how it has been prepared, to identify the elements that relate to each category and topic.

EXAMPLE

A sustainability report could be analyzed into categories of environmental, social, economic and governance information, each of which could address several topics. The environmental information could include reporting on several different ‘resources’ affected by the entity (the elements), such as natural resources (for example, trees, air or water), and related causes of change in those resources relevant to the underlying subject matter category ‘environmental’ (for example, the entity’s deforestation of trees, emissions into the air, or release of effluent into a water system).

238. Understanding the structure of a report in this way may be important for a practitioner when agreeing the scope of an assurance engagement, particularly where the scope does not address a report in its entirety.

Refer to paragraphs 50 to 55 in Section I for guidance on determining the scope of an EER assurance engagement.

Criteria

239. Criteria specify both:

- a) the nature and scope of the topics and related subject matter elements to be included in the report (which are dealt with in definitions and underlying concepts); and
- b) the representations of such subject matter elements that should be included in the report, including the qualities of the subject matter elements that should be described, and the benchmarks to be used in measuring or evaluating those qualities.

240. Criteria establish the basis of preparation for the report. At its most simplistic, including a representation of a subject matter element in the report could involve measuring or evaluating a quality of the element and reporting the value of that measurement or the outcome of that evaluation, together with how the measurement or evaluation was made.

241. An element is an individual object that exists and can be identified as distinct from all other individual objects. However, an element may be a part of another element and may consist of several other elements (a composite object).

EXAMPLE

'An apple' is an individual object, distinct from all other individual apples and from all other individual fruits etc. It is a composite object, with several distinct parts (separate objects): 'several pips'; 'a flesh'; 'a skin'; and 'a stalk'. It may also be a part of 'a fruit basket' (another composite object).

Qualities

242. A quality is a type or kind of feature that can be exhibited by an element or another quality.

Different elements and other qualities may exhibit a quality in different ways (each different way is called a 'trope'). The nature of a quality is abstracted from its different possible tropes. A trope is contained by an element or other quality, but not in the same way as a part is contained by an element. A trope cannot exist separately from the object or other quality that contains it.

EXAMPLE

An apple may be described as red or green or brown, which are tropes of a quality called 'color'. The individual color of an apple is contained in its skin, but the redness of an apple cannot exist separately from the apple or its skin and it is not a part of the apple. Some red apples may be described as 'dark' red and others as 'light' red. Dark and light are tropes of a quality (aspect) that modifies the quality called color. That aspect may be described as a tint, tone or shade.

243. A quality can be categorized according to whether it addresses a feature of an element, or of another quality, that involves the element or quality:

- being located in *space*, existing over *time* or having an *attitude* (their tropes respectively describe *where*, *when*, and *how* it exists)
- having a *quality*, *relation* or *quantity* (their tropes respectively describe *what* its nature is, *what* its relations to other elements or qualities are and *how many or much* there is (are) of its parts or other qualities)
- being an *agent*, *subject* or *outcome* of an action (their tropes respectively describe *how* it can be a cause of change, *how* it can be changed by a cause and *what* is the effect of a cause on its state).

Evaluating or measuring elements

244. Preparing subject matter information involves evaluating or measuring the relevant qualities of relevant subject matter elements. Evaluation involves comparing the tropes (of relevant qualities) of an element with benchmarks, which are established by the applicable criteria and cover all the possible tropes of a quality. In general, such a comparison results in information about the classification of relevant elements, by reference to the tropes of their relevant qualities. Such information provides answers to the types of questions about a relevant quality or aspects of it that are discussed in the preceding paragraph.

245. Measurement is a special case of evaluation, in which the benchmarks used are quantitative (standard measures). In other cases, the benchmarks for evaluation are given names or labels, which may include, for example, letters, numbers, nouns, adjectives or adverbs. Benchmarks are said to be 'nominal' when they have no natural ordering (e.g., red, blue, yellow) or 'ordinal' when they have some degree of natural ordering (e.g., small, medium, large). In some classifications, numbers may be used as nominal or ordinal labels rather than as quantities.

246. Making a measurement determines how many or how much of the relevant quality is in the trope being measured. The measurement instrument used to compare a trope with the standard measure may be physical (a meter) or a defined process. In either case, the instrument must be aligned with the standard measure (calibration).
247. There are different types of standard measures but, in all cases, they are based on a clearly specified point of reference, which bears a defined relationship to the unit of measurement that is sufficiently precise for its purpose. For physical qualities, like length and time, the point of reference is usually a trope of the quality that can be observed consistently in a well-defined element, in well-defined circumstances (e.g. a meter of length is defined as the distance travelled by light in a vacuum, in a specified fraction of a second of time).
248. In other fields or circumstances, the quality to be measured may be a concept that is not (or not always) observable and measurable directly. It may not therefore be possible to identify a directly observable point of reference and it may not (or not always) be possible to directly observe or measure a trope of the quality. This is often the case in the fields of social and economic knowledge (e.g. intelligence is a quality that cannot be observed or measured directly, and economic value is not always observable or measurable directly).
249. In such cases, a well-defined and generally accepted measurement model is needed, either for establishing the point of reference, or for measuring tropes, or for both purposes. Such a model is based on a well-defined concept for the quality. It defines observable indicators of the quality, standards for the measurement or evaluation of such indicators, and a mathematical or logical process that generates repeatable measures of a trope when applied to the resulting measures or evaluated classes of those indicators. The point of reference for a standard measure may be a trope of the quality that can be measured consistently, using the model, in a well-defined element, in well-defined circumstances.

EXAMPLE

Intelligence tests are designed to obtain measures of indicators of the quality 'intelligence'. Standard measures of intelligence are defined by sufficiently precise estimates of the distribution of measures of individual intelligence across a relevant population. These estimates are inferred from the results (scores) of a defined intelligence test (measuring instrument) taken by a sufficiently large sample of members of the population.

Accounting values are measured in currency units, but currency units may be used to measure different concepts of value. The points of reference used for accounting value measurements of tropes that are not observable are usually values that can be observed in historical or, with hindsight, future outcomes of actual transactions, in defined circumstances that correspond with the accounting value concept being used (measurement basis). Such points of reference are used to calibrate a defined measurement model (method) that uses data and assumptions about defined indicators of the accounting value (valuation attributes) and a defined process (method) to make measurements of tropes of the defined accounting value.

250. The quantifiability of a quality can exist in different ways. Some qualities that are quantifiable are said to be extensive because the quantity is proportional to the 'extent' of the quality in the trope. Measures of such qualities are additive. Examples of qualities that are extensive include certain physical qualities such as length, area, volume and time, which can be 'occupied' by an element.
251. Some qualities that are quantifiable exist only in discrete units of measurement. Measurement of such qualities involves identifying and counting the units. The resulting measures are whole multiples of the unit and are expressed as integers. In other cases, the quality can exist in continuous amounts. In such cases, the measurement instrument is calibrated on a scale that may reflect multiples, units, and parts of units. The resulting measures are expressed as real numbers.
252. In practice, measurement instruments have an inherent limit (degree) of precision (their ability to discriminate differences in measures). The degree of precision possible is limited by the smallest calibrated difference in quantity that can be discriminated using the instrument. For example, on a meter or ruler the smallest measurement that can be discriminated is determined by the closeness of the hatch marks. When the measurement instrument is a process, the degree of precision will be affected by inherent limitations in available data and knowledge to make a valid measurement, which requires the use of subjective assumptions.

Developing criteria

253. Suitable criteria establish benchmarks that, when used to measure or evaluate qualities, give rise to useful information about relevant elements. That information can be made more useful by applying presentational techniques to it, such as summarization or aggregation.
254. The criteria need to be able to provide a representation of the subject matter elements that is appropriate in the context of achieving the purpose of the report.
255. Causes of change in subject matter elements comprise:
- a) Transactions (involvement of another entity)
 - b) Actions (taken either by the entity itself or by other entities)
 - c) Other events and conditions (outside of the entity's control, e.g. a flood or weather conditions, not necessarily attributable to an action)
256. Another way of thinking about criteria is that they embody the questions that must be addressed in evaluating or measuring a subject matter element.

EXAMPLE

If the subject matter element was a machine in a factory some questions which might underpin the criteria and, in brackets, the resulting subject matter information, include:

- a) When was the machine built? (expression of time)
- b) Where is the machine? (expression of location)
- c) What color is it? (expression of a quality)
- d) What is the maximum number of widgets it can produce in an hour? (expression of a capability to act so as to cause change)
- e) What is the actual number of widgets produced in the last year? (expression of performance or outcome of an action that causes change)
- f) What is its financial value at a point in time? (expression of a quantity or measurement)
- g) What has been the change in value over the last year? (expression of the outcome of a change in the machine's state or condition)
- h) How did the change in value happen? (expression of the cause of a change)
- i) Why have the directors decided to sell the machine? (expression of the intent of an action to cause a change)

EXAMPLE

Another example of an element might be a river next to a company's factory which it has access to. Questions which might underpin the criteria include:

- a) Where is the river? (expression of location)
- b) How much water flows through the river? (expression of characteristic)
- c) How polluted is the river in terms of the chemical composition of the water? (a measurement)
- d) How has the water quality changed over a period of time? (expression of change in condition)
- e) What is the impact of the factory on the water quality of the river? (explanation of cause of change in condition)

257. The criteria can be selected or developed in a variety of ways, for example, they may be⁴¹:

- a) Embodied in law or regulation
- b) Issued by authorized or recognized bodies of experts that follow a transparent due process (for example, GRI or SASB standards)
- c) Developed collectively by a group that does not follow a transparent due process
- d) Published in scholarly journals or books
- e) Developed for sale on a proprietary basis
- f) Specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement
- g) A combination of the above

Requirements for suitable criteria

258. The practitioner in an assurance engagement is required to determine whether the criteria are suitable for an assurance engagement. This includes a requirement that the criteria exhibit the five characteristics of relevance, completeness, reliability, neutrality and understandability. ISAE 3000 (Revised) states that where criteria are established, they are presumed to be suitable in the absence of indications to the contrary⁴². In a financial statement audit, there is a similar presumption and the criteria are usually generally well defined and accepted (and therefore established) in the applicable financial reporting framework (e.g. IFRS). Accordingly, it is not usually necessary to make a detailed evaluation of the acceptability of the criteria. In an EER engagement, determining whether the criteria are 'established' and where (as is usually the case) they are not, assessing the suitability of criteria, is ordinarily a more significant exercise for the practitioner.

Refer to paragraphs 60 to 104 in Section I for guidance on assessing the suitability of criteria.

Relevance and materiality

259. As explained in paragraph 76 of the guidance, materiality is an aspect of relevance in the context of a specific entity. Furthermore, materiality is threshold of relevance (or the significance to decision-

⁴¹ ISAE 3000 (Revised) paragraph A48

⁴² See ISAE 3000 (Revised) paragraph A49 for details of the definition of established criteria.

making by intended users) in the context of that specific entity and purpose of the report. Criteria may specify types of information that, in general across many reporting entities, could influence particular types of user decisions that are related to the purpose of the report. Such criteria are important as a base for determining what may be relevant in the particular circumstances of an entity and the particular purpose of its report.

260. Other criteria may specify how to determine what is relevant in those particular circumstances (i.e. what is material). Such criteria require additional judgments to be made in applying generic criteria, to determine whether the resulting subject matter information could affect user decisions in the specific circumstances. Materiality criteria are difficult to establish except in the context of a particular entity. For this reason, established frameworks ordinarily specify a materiality principle, which has to be applied by the preparer. Without such a materiality principle in an established framework, the subject matter information resulting from applying the criteria could omit something that is relevant in the specific report and, if so, would not exhibit the characteristic of relevance.
261. Relevance of subject matter information may be affected by the level of measurement or evaluation uncertainty that is inherent in the subject matter information and the available criteria that could be used. Some criteria for measurement or evaluation may provide information about a quality that has more inherent uncertainty than another criterion. It may still be more relevant than the other criterion.

Report example

262. Below is part of an example report for fictitious entity 'ReportCo' designed to illustrate the concepts above. It is based on a real example of an integrated report prepared under the Integrated Reporting ('<IR>') framework. Below the extract is a table identifying the various components and structural parts of the report.

Performance

ReportCo has a range of indicators for each of its six capitals. Overall the business has made significant progress towards achieving its long-term objectives.



Finances

- ReportCo made an increased profit in the year due to increased demand and effective cost control.
- One-off acquisition added 3% to the value of the company.

\$20m

profit after tax compared to \$18m in the previous year.

5%

increase in revenue.



People

- Positive changes to organisational structures allow better focus on customer service.
- Improved focus on the wellbeing of all our people.

85%

employee engagement score – our highest ever.

4,500

employee headcount.



Experience

- The knowledge and expertise we have gained in our 25 year history sets us apart from the competition.
- Well established disaster recovery procedures.

25

new patents registered in the year.

24hrs

recovery time after warehouse fire.



Relationships

- Our brand is well regarded and brand visibility has increased over recent years.
- Strong supplier relationships have led to favourable contract renewals.

98%

of customers would recommend us.

\$5m

cost savings from contract renegotiation.



Infrastructure

- Continued investment in our distribution network, allowing us to increase capacity.
- Additional warehouse opened in New Town.

\$55m

invested in the latest technology this year.

1 day

reduction in average order fulfilment times.



Environment

- Replacement of entire vehicle fleet with cleaner alternatives.
- Continued efforts to reduce our carbon emissions across the business.

53

vehicles replaced with low-emission alternatives.

69%

of waste recycled across all of our sites.

Structural component	Example(s)
Underlying subject matter	As this is an integrated report prepared in accordance with the <IR> framework, the underlying subject matter is information about how the company creates value for shareholders and other stakeholders.
Categories	The company has identified six 'capitals' which are the resources and relationships with which it creates value, broadly in line with the <IR> framework. These are finances, people, experience, relationships, infrastructure and the environment.
Topics	Within each of the capitals, the company has selected several topics to focus on, for example under 'relationships' details are given about the company's brand and supplier relationships.
Elements	Many elements have been reported on just on one page – these include employees, patents, customer relationships, financial income, vehicles and waste.
Criteria	The criteria used in this extract have the broad function to describe the company's performance in creating value through a range of selected indicators. Some of the criteria are relatively straightforward such as the number of vehicles replaced in the year. Other criteria such as employee engagement scores or the results of customer surveys would need careful consideration by a practitioner as to whether they were suitable for an assurance engagement.
Subject matter information	The words and numbers that provide a representation of relevant qualities of elements (e.g., "4,500 employee headcount" is a quantitative representation of a relational quality of the employee group, the number of individuals contained in it).

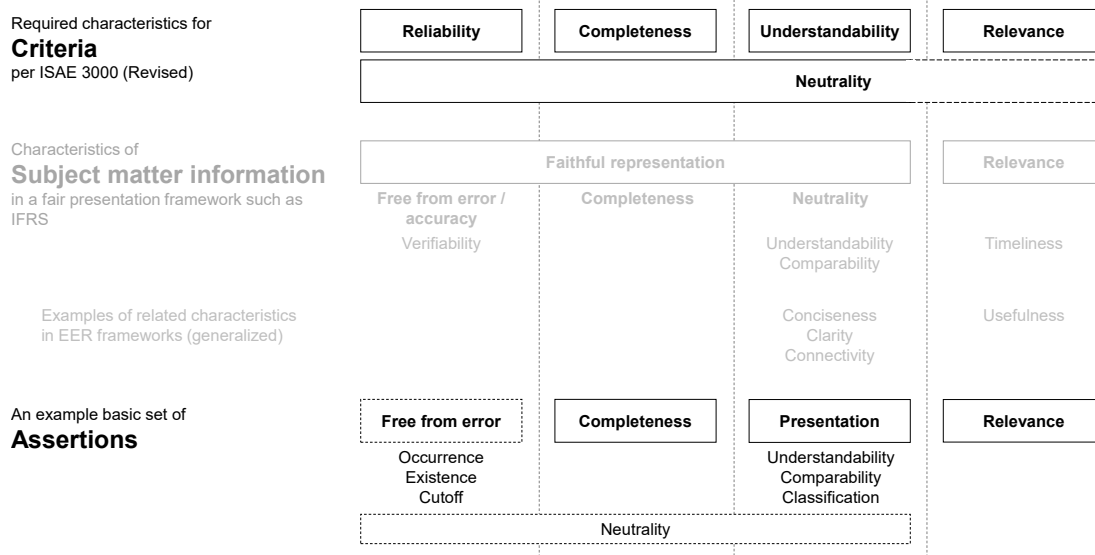
Assertions

263. Section I explains how assertions can be used by practitioners as a tool to assist in designing assurance procedures. It provides guidance on building assertions that are appropriate in the engagement circumstances. The paragraphs below provide relevant contextual information about assertions and their relationship to qualitative characteristics of useful financial information, which may be helpful to practitioners in applying that guidance

Refer to paragraphs 148 to 159 in Section I for the guidance on building assertions.

Example reconciliation of required characteristics for criteria to assertions

264. The diagram below illustrates how the required characteristics for criteria (as defined in ISAE 3000 (Revised)) can be reconciled to a basic set of assertions as suggested in Section I:



265. The characteristics of subject matter information (middle row in grey) shown in bold type are those specified by the IASB Conceptual Framework for financial reporting – these are shown on the diagram only to show how these can be reconciled into this model, not because they are necessarily specifically required for EER. Further terms for characteristics of useful subject matter information (not in bold) are also included, some of which are taken from various EER frameworks.
266. It is likely that a practitioner will identify the four assertions in boxes in most engagements, but would then add additional assertions depending on the specific nature of an engagement. These additional assertions may arise from requirements in the reporting framework (for example <IR>'s requirement for there to be connectivity between information in the report). Frameworks may use

different terminology for the characteristics for subject matter information (for example 'guiding principles').

267. The use of the term 'reliability' has been subject to much debate since ISAE 3000 was revised in 2013. The IASB and IPSASB are now using 'faithful representation' which encompasses much of what was previously understood by 'reliability' with measurement / evaluation uncertainty incorporated in 'free from error'. This IAEPN therefore assumes the term 'reliability' is consistent with the terms 'faithful representation' and 'free from error' as described above.

Materiality

Introduction and context

268. Section I sets out guidance, including a framework for the practitioner's application of the concept of materiality. That guidance is split into three areas of an EER assurance engagement where materiality is ordinarily considered:

- | | | |
|----|--|-----------------------|
| a) | Evaluating which topics and related subject matter elements are to be included in the report; | Paragraphs 105 to 147 |
| b) | Determining the extent of assurance procedures (performance materiality); and | Paragraphs 193 to 196 |
| c) | Evaluating whether the subject matter information included in the report for material topics and related subject matter elements is free from material misstatement. | Paragraphs 197 to 215 |

269. In circumstances where the scope of the engagement is limited to certain parts of the report, materiality considerations will need to be applied in that context. For example, if the assurance scope is not an entire report, the role of the practitioner in the first area above (paragraph 268(a)) may be different.

270. The following paragraphs provide further background information about materiality, a preparer's materiality process, and conceptual background to the suggested framework for the practitioner's application of the concept of materiality. Whilst the guidance in Section I is primarily focused on assisting a practitioner in forming a view on the appropriateness of the results of an entity's materiality process, this section provides information on a preparer's role to provide context about what a preparer might be expected to have addressed in their materiality process.

Similarities and differences between financial reporting and EER

271. In traditional financial reporting, the first area (paragraph 268(a)) is straightforward as the reporting frameworks (e.g. IFRS) substantively address it by specifying the underlying subject matter and its elements and their qualities that should be reported. This is widely understood by preparers, users and practitioners. This is generally not as comprehensively addressed in EER frameworks. The relevant subject matter elements and their relevant qualities are generally less comprehensively specified by EER reporting frameworks and entities therefore have to develop their own processes to determine these matters.

272. The second and third areas (paragraph 268(b) and (c)) apply for both financial reporting and EER, however they are often more challenging for the practitioner when the subject matter elements are diverse in nature and are not all capable of being evaluated, measured or tested in a consistent way or common unit of measurement, as is very often the case for an EER report.

Responsibilities of preparers and practitioners

273. It is principally the preparer's responsibility (as the measurer / evaluator) to determine what subject matter elements are material to include in the report, and what information about those content elements is included. In fulfilling its responsibilities for the subject matter information, in its roles as responsible party and as measurer or evaluator, the preparer would be expected to undertake some form of 'materiality process' to achieve this⁴³. The degree of formality (including the extent to which it is documented) of the process may depend on the nature and size of the entity, the nature of the subject matter and the degree to which the EER framework addresses such considerations.
274. Through review of relevant documentation, and/or by inquiry of management and other procedures, the practitioner reviews the preparer's process to fulfil its responsibilities in ISAE 3000 (Revised) paragraph 47L / 47R, and the results of management's process.

The preparer's materiality process

275. The starting point for the preparer's process to determine the content of their report should be the EER framework(s) being adopted. Frameworks may specify the underlying subject matter and the criteria to varying degrees, and may specify, or be based on assumptions about who the intended users are⁴⁴. EER frameworks differ widely in this respect. For example, a framework such as the <IR> framework only gives a high-level indication of the 'capitals' which may be relevant to the entity's creation of value and specifies broad 'content elements'. Others, for example SASB's standards, provide much more granular criteria for underlying subject matter and subject matter information for entities in specific industries based on what the framework-setter considers is likely to be material for specified groups of intended users.
276. In general, preparers would also be expected to begin their process by understanding both the purpose of their report and its intended users.
277. The purpose will be to report certain information about an underlying subject matter to a group(s) of intended users.

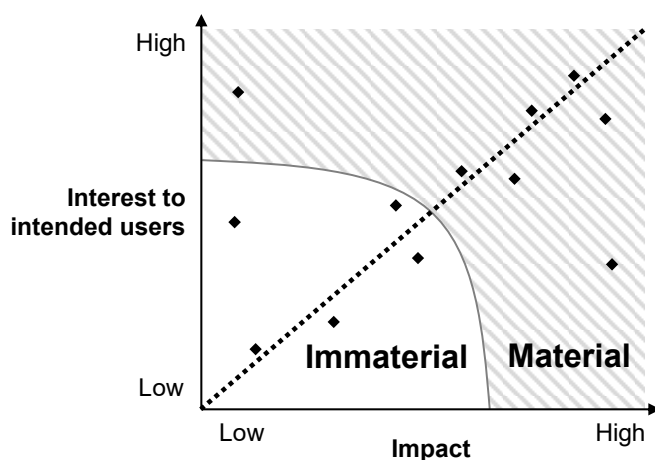
⁴³ Refer to ISAE 3000 (Revised) paragraph A39

⁴⁴ Some frameworks (for example, the GRI standards) consider the whole of society across the world to be the intended users.

- a) Purpose → Condition and / or performance of the entity (within a specified domain or scope of interest)
- and / or
- The entity's impact on stakeholders (within a specified domain or scope of interest)
- b) User → Needs information about purpose (to make decisions)

Consideration of interest to intended users and impact

278. Step 3 of the guidance (paragraph 130 onwards) suggests how the materiality of something could be assessed by considering its impact and level of interest of intended users, and portrays these on a scatterplot:



279. This is a commonly used approach, although there are slight differences between the approaches suggested by some of the commonly used reporting frameworks. These are discussed below.
280. In a theoretical scenario where the interest of intended users in something was only affected by an accurate understanding of its expected impact, there would be a perfect correlation with all items plotted along the dotted $x=y$ line. In reality some anomalies may well be expected, perhaps where intended users are considering different timescales, or where intended users are particularly sensitive to an issue by its nature (and therefore they have a high level of interest in it, for example executives' remuneration) even if the impact is not correspondingly high.
281. For many reporting frameworks, for example the <IR> framework, 'impact' is considered to be the impact on the entity itself. This is common where the intended users are direct or indirect financial

stakeholders (for example shareholders and lenders). An alternative approach, for example that included in the GRI standards, is to consider the impact on others, wider society and the environment.

Appendix 1: The Ten Key Challenges

The Ten Key Challenges from the discussion paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting*, were:

1. Determining the Scope of an EER Assurance Engagement Can Be Complex
2. Evaluating the Suitability of Criteria in a Consistent Manner
3. Addressing Materiality for Diverse Information with Little Guidance in EER Frameworks
4. Building Assertions for Subject Matter Information of a Diverse Nature
5. Lack of Maturity in Governance and Internal Control over EER Reporting Processes
6. Obtaining Assurance with Respect to Narrative Information
7. Obtaining Assurance with Respect to Future-Oriented Information
8. Exercising Professional Skepticism and Professional Judgment
9. Obtaining the Competence Necessary to Perform the Engagement
10. Communicating Effectively in the Assurance Report

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The objective of the **IAASB** is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

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Feedback from XRAP on the developing guidance on assurance on emerging forms of external reporting (EER) (13/09/2018)

- Many commented on the growing amount of and quality of reporting of EER type information in New Zealand.
- 1 commented on the need for stakeholders in this space to be thought of more broadly than only investors and lenders, whilst acknowledging the need to exclude voluminous reporting required by policy makers for a specific purpose.
- 1 commented on the preparer experience of trying to obtain assurance over their carbon footprint calculation recently – whilst they were seeking assurance over the calculation, the complexity of getting the elements of assurance made it more complex than they envisaged
- 1 commented that it would seem too soon to go ahead of the international board and cautioned against developing guidance/standard in New Zealand
- Whilst the preparers/directors mostly commented on the complexity of the developing guidance, a practitioner in the room commented that the guidance read well and was developing to be a useful guide.
- Avoid shall statements – i.e. guidance should not establish requirements in addition to ISAE 3000
- Cautioned against developing quasi-requirements for the preparer – the guidance refers to the preparer “must”, or encourages the preparer to act/prepare information which is not practical to enforce through an assurance standard or guidance
- Concern was raised about whether the existing assurance framework remains fit for purpose given the challenges arising
- Concern raised about competency to perform the work – may include highly technical areas beyond the experience of the practitioner. The practitioner however felt the guidance addressed that.
- No specific feedback as to whether criteria was well understood, but a discussion around the purpose of and need for an evaluation of suitable criteria emerged:
 - Questioned whether another type of engagement may be better suited – for example AUP (however AUP may be suitable for a specific user not a general user group)
 - Acknowledged the risk of “greenwashing” or cherry picking as a very real risk that is occurring and highlights the value to be added by an assurance engagement where there is an independent party challenging whether the criteria cover all the matters that matter and are measuring them in a way that avoids preparer bias.
 - Queried how consistency across entities would work? - highlighted that over time within an industry, certain benchmarks will become common practice, if everyone else is reporting on x,y,z, users will query why you aren’t. Practitioner noted that sometimes the evaluation of suitability is not that difficult.
 - Quoted research (which will be passed to us) to indicate that users valued the brand of the big four attached to building trust in the information – indicates that users do value the robustness of the assurance process in developing trust over this type of information.
- Materiality
 - Discussed the role of the preparer versus the role of the practitioner
 - Emphasis on the purpose of the report and the intended stakeholders was highlighted as a key point. Stakeholders should be thought of more broadly than only investors and lenders.

- On determining whether the report was materially misstated, a practitioner thought that it is more likely that the practitioner would highlight misstatements in individual measures in the report
- Maturity of governance and internal control
 - Concern that the guidance implied that if there is limited controls, this would mean that the engagement should not be accepted (which may not be the intent in all situations).

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1
Meeting date: 24 October 2018
Subject: NZ SRE 2410
Date: 25 September 2018
Prepared by: Misha Pieters

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To:

- Confirm the scope of the project; and
- Provide feedback on an invitation to comment and exposure draft proposing limited amendments to the domestic standard NZ SRE 2410, the standard dealing with interim review engagements conducted by the auditor of the entity, to incorporate changes made under the auditor reporting project and the new non-compliance with laws and regulations (NOCLAR) framework.

Background

1. The NZAuASB issued two review engagement standards in 2013:
 - ISRE (NZ) 2400 (Revised) *Review of Historical Financial Statements Performed by an Assurance Practitioner*
 - NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*
2. When NZ SRE 2410 was issued, the rationale for the approach taken was documented in the [Explanations for Decisions](#) made document – to adopt and amend the Australian standard, ASRE 2410, rather than the international standard because it is in the clarity format and conforms with international requirements.
3. The Board considered whether to update ASRE 2410 for the thinking used by the IAASB in revising ISRE 2400, but decided against moving ahead of the IAASB. Rather both the NZAuASB and the AUASB agreed to encourage the IAASB to update ISRE 2410. This point was made in both submissions to the IAASB and in feedback on the IAASB strategy survey at the time. The IAASB has however had more pressing projects to deal with, and it remains unlikely that this will be seen as a priority project internationally.

4. At the September 2018 Board meeting, the NZAuASB agreed to develop a domestic exposure draft to update NZ SRE 2410 to include changes introduced into the auditing standards in the auditor reporting project, other than the requirement to report key audit matters. In addition, the NZAuASB agreed to consider conforming amendments to NZ SRE 2410 to ensure that the standard is aligned with the new framework for dealing with non-compliance with laws and regulations.
5. In developing the draft exposure draft, our approach has been to restrict the amount of change to align the standard with the auditor reporting requirements and the new NOCLAR framework, without reopening the standard or amending the way in which it has been written. We have brought the entire standard for inclusion in the exposure draft so that the Board can consider the changes in the context of the full standard. Feedback is sought as to whether this approach should be retained for the exposure draft to be issued.
6. The scope of the amendments is not intended to cover a post implementation review of NZ SRE 2410. That is, we have not reopened the prior decision not to update NZ SRE 2410 to align with amendments made when ISRE 2400 was revised.
7. In addition, the question whether to amend ISRE (NZ) 2400 (Revised) for the auditor reporting requirements has not been contemplated as part of this project. ISRE (NZ) 2400 (Revised) applies when there is no audit of the financial statements, i.e. it is for a different type of entity and a different user group. ISRE 2400 (Revised) is updated by the IAASB as part of its conforming amendments, whereas ISRE 2410 has not been amended since 2006.

Key matters arising

8. The Board is asked to provide feedback on the draft invitation to comment and exposure draft at agenda item 9.2 and 9.3.
9. The AUASB has expressed an interest in this New Zealand project and will be considering an issues paper at its half day October meeting.

Material Presented

Agenda item 9.1	Board Meeting Summary Paper
Agenda item 9.2	Issues paper
Agenda item 9.3	Draft Exposure draft
Agenda item 9.4	Draft invitation to comment

Issues paper – Amendments to NZ SRE 2410

Scope of the project

1. In developing a draft exposure draft, we have limited the type of amendments to NZ SRE 2410 to those relating to reporting matters (and conforming amendments as a result of NOCLAR).
2. The project to issue review engagement standards in New Zealand corresponded with the IAASB's project to revise ISRE 2400, the review engagement standard that applies when the review is the only type of assurance engagement (i.e. not a review performed by an auditor). When the NZAuASB issued NZ SRE 2410, the decision was not to adopt the international equivalent (ISRE 2410, which has not been updated for many years and was not within the IAASB's scope of the review project at that time). It was already outdated in that it was not in the clarified format.
3. Two other options were considered: converge with the Australian equivalent or develop a domestic standard. The NZAuASB and the AUASB raised the matter of updating ISRE 2410 with the IAASB. The NZAuASB determined to wait and see what the IAASB would do, and in the interim to use the Australian standard (using the harmonisation policy). However, the IAASB has not, and has shown no plans to update ISRE 2410 in the near future.
4. The same matters that existed when the NZAuASB issued NZ SRE 2410 therefore remain – in that the review standard that applies at the interim stage, has not been updated to incorporate the revisions to ISRE 2400 (Revised). There are more detailed requirements in ISRE 2400, to assist the assurance practitioner perform a high quality review. An example of some of the more extensive requirements incorporated within ISRE 2400 include:
 - A requirement related to professional scepticism
 - More specific requirements for engagement terms
 - A more specific requirement for determination of materiality
 - More specific procedures, for example, going concern procedures, enquiries around commitments, related party matters. (ISRE 2410 includes some examples in the appendix, however 2400 describes this in more detail in the requirements)
 - More detailed requirements related to non-compliance with laws and regulations.
5. Whilst these requirements are equally relevant to a NZ SRE 2410 engagement, an underlying theme in NZ SRE 2410 is that the auditor may refer to the ISAs (and in many instances may be doing audit procedures (which inform the review conclusion) simultaneously. Whilst this prescriptiveness may enhance the quality of the engagement, in practice it is likely that the practitioners are already doing this work, with reference to the ISA requirements.
6. When debating the way in which to develop NZ SRE 2410 for New Zealand, the decision at the time was not to reopen 2410 for the enhancements made to ISRE 2400. This matter has not been revisited. The matter arising is whether the Board wishes to complete a post implementation review of NZ SRE 2410 and re-examine whether further amendments are needed.
7. **Does the Board agree to limit the scope of the project to the auditor reporting requirements, and ongoing maintenance of the standard for changes to the ISAs (or do we need to revisit whether any changes are needed as a result of changes made to ISRE 2400 (Revised) in 2013?**

Auditor reporting matters

8. Staff have identified the following matters for discussion as a result of the auditor reporting changes when developing the draft. While some of the key changes were discussed in September, when deciding whether or not to amend the standard, a more complete analysis of all of the reporting changes has been performed in drafting an amended exposure draft.

Re-order the report

9. In September, the Board tentatively agreed to re-order the review report so that the conclusion is first, similar to the revised auditor's report. This has required changes to the structure of the reporting requirements, including many more separate requirements to deal with each matter, rather than a long list of bullets as is currently done in NZ SRE 2410. Refer to paragraph 32-34 of extant NZ SRE 2410 or proposed paragraphs 33-46.
10. The auditor's report includes an expanded section on the auditor's responsibilities. In addition, auditors are permitted to refer to the XRB website instead of including the detailed description of the auditor's responsibilities in every report.
11. The nature of a review engagement is limited and therefore the description of the auditor's responsibilities at the annual audit stage may not align with the description for a review at the interim stage. The amended draft exposure draft retains the descriptions in the extant report but has moved these under the heading of auditor's responsibilities.
12. We do not recommend that it is necessary to include an option to refer to the XRB website for the auditor's responsibility section given that the responsibility section is condensed in the review report
13. **The Board is asked for feedback as to whether rearranging the text in this manner is appropriate? The Board is also asked for feedback on the description of the auditor's responsibilities at the review stage and whether it is necessary to include a reference to the XRB website?**

Independence statement

14. The new auditor's report makes it explicit that the auditor is independent and has complied with the other ethical responsibilities. The Board tentatively indicated a preference to align the independence statement in the interim review report.
15. A key issue arising is how to reference PES 1 (Revised) *Code of Ethics for Assurance Practitioners* which needs to be as restrictive as the IESBA Code. When restructuring the Code, the IESBA made changes to clarify the Applicability of Part 2 to practitioners in public practice. The extant standard refers to Part A and B of the IESBA Code. Limiting the reference to the IESBA Code as done in the extant standard may no longer be as restrictive as the restructured IESBA Code. (This issue will arise for ISA (NZ) 700 (Revised) in the same way).
16. At the IAASB's September meeting, the IAASB discussed the definition of relevant ethical requirements in the context of the quality control project. The Quality Control Task force (QCTF) noted the revisions to the IESBA Code regarding the applicability of Part 2 (previously Part C) that is addressed to professional accountants in business, which is now applicable to all individuals who are professional accountants, including those in public practice. The QCTF also noted that the new IESBA Code is far more integrated than the previous Code, i.e., singling out particular parts would not reflect the importance of the integration. Accordingly, the QCTF is of the view that it is no longer appropriate to refer to the parts of the IESBA Code in the definition because there could be aspects of Part 2 of the IESBA Code that are relevant to the system of quality management (SOQM) (i.e., it affects the performance of engagements or the individual's role in relation to the SOQM). In the past, in New Zealand, the XRB standards have singled out Parts A and B. This approach now needs to be reconsidered.
17. At the September meeting, the IAASB agreed to define relevant ethical requirements as "Principles of professional ethics and ethical requirements to which the engagement team is subject in undertaking an

audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) *related to an audit of financial statements*, together with national requirements that are more restrictive.”

18. The same could be said of singling out particular parts of the Code in in the auditor’s report. The IAASB have not yet developed conforming amendments to the auditing and assurance standards for the restructured Code.
19. ISA 700 (Revised) illustrates a possible way in which to reword the report:

“We are independent of the [entity] in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*New Zealand*], and we have fulfilled our other ethical responsibilities in accordance with these requirements.
20. We recommend removing the reference to Parts A and B, but whether and how to make it apparent that this may include Part 2 of the restructured Code will need to be considered. Another option is to include a reference to Part 2 of the Code issued by the professional bodies as related to an audit of financial statements in identifying the relevant ethical requirements in the audit/interim review report. This approach may also need to be consistently reflected in PES 1 (Revised) and the ISAs (NZ).
21. **The Board is asked for feedback on paragraph 39(c).**

Engagement partner’s name
22. In September, the Board discussed including the engagement partner’s name in the review report. We propose to align the scope of this requirement for all FMC reporting entities considered to have a higher level of public accountability. Refer to paragraph 43 of the draft at agenda item 9.3.
23. **The Board is asked for feedback on the scope?**

Material uncertainty related to going concern
24. The heading used to emphasize a material uncertainty related to going concern has been amended in the auditor’s report and no longer refers to an Emphasis of Matter. Extant NZ SRE 2410 continues to refer to an “emphasis of matter”. As discussed by the Board in September, it would be preferable to align the terminology. Refer to paragraph 55 of the draft exposure draft.
25. Extant NZ SRE 2410 erroneously refers to a “modified report” when including an emphasis of matters paragraph. We recommend correcting this error but not going into the details of ISA (NZ) 570 (Revised) Going Concern. Refer to paragraph A52 of agenda item 9.3.
26. ISA (NZ) 570 is structured differently from NZ SRE 2410 to make it clear what the various implications are for the auditor’s report, i.e. where use of going concern is inappropriate, where use of going concern is appropriate but a material uncertainty exists (and considers whether adequate disclosure is or is not made). NZ SRE 2410 is not structured in this way and we seek feedback as to how much change is needed to clarify the various options.
27. Extant paragraph 46 referred to a significant uncertainty (other than a going concern problem). It is unclear what this relates to where the focus on going concern has been clarified. We seek the views of the Board as to whether there is an ongoing need for this requirement.
28. **The Board is asked for feedback on the changes made to the heading as well as whether further changes are needed?**

Going concern responsibilities
29. The Board has not previously considered whether and how to incorporate the responsibility of those charged with governance and the auditor with respect to going concern. The preparer’s requirements

related to going concern are the same at the interim stage as at the annual reporting stage as the going concern paragraphs in NZ IAS 1 apply to interim financial reporting. We therefore consider that repeating management's responsibilities for going concern at the interim stage is appropriate.

30. The auditor's responsibilities under extant NZ SRE 2410 are less than ISA (NZ) 570 (Revised), similar to the nature of the engagement, i.e. the auditor's procedures are generally limited to enquiry and analytical review procedures. NZ SRE 2410 requires the auditor to enquire whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern (refer to para 20 of agenda item 9.3. The matter arising is then how to describe the auditor's responsibilities in the review report.

31. The draft includes the following description of the auditor's responsibility:

"(c) State that the auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If the auditor considers that a material uncertainty exists, the auditor is required to draw attention in the review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the conclusion. The auditor's conclusions are based on the evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern."

The description under the revised auditor's report is as follows:

- **"Conclude** on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

32. **The Board is asked for feedback on the draft requirements in paragraph 42(c) of the draft exposure draft and in particular on the use of the word "enquiries" rather than "conclude" to describe the auditor's responsibilities.**

Other Information Section

33. The Board has not previously discussed the Other Information section. Under the auditor reporting project, amendments were made to clarify what it was the auditor was responsible for in respect of other information in an annual report and then to make it transparent in the auditor's report that the other information is not audited but explain what the auditor's responsibilities are.
34. NZ SRE 2410 describes in a limited way what the auditor's responsibilities are related to other information at the interim stage. However, there is no reporting requirement. One argument is that it is equally relevant to include the section on other information in the interim report, as it will serve the same purpose (i.e. to clarify that the auditor has not audited the information but has some responsibility to at least read it for inconsistencies).
35. On the other hand, the reporting gets very involved, depending on when the auditor receives the other information i.e. has to state what other information has been received and what is still expected to be received. This may be seen as overly confusing.
36. At this stage we have not proposed a separate section on Other Information be included in the Interim Report but have at least aligned terminology to refer to Other Information. It is not clear whether the additional reporting has clarified the matter for users, as intended. This may be better considered once the IAASB has completed its post implementation review of the revised auditor reporting requirements.

37. **We seek feedback as to whether the Board wishes to add a section on other information to the interim review report? One option is to include a question in the Invitation to Comment as to whether it would be considered necessary to include this section in a review report.**

Non-compliance with Laws and Regulations (NOCLAR)

38. The conforming amendments made by the IAASB to its assurance standards, where to clarify how existing requirements worked with the new NOCLAR framework introduced in the Code of Ethics, i.e. not intended to add more requirements to the assurance standards.
39. NZ SRE 2410 has fewer requirements related to NOCLAR than ISRE 2400 (Revised) does and therefore there are limited places identified where "conforming amendments" have been identified. For example, ISRE 2400 (Revised) includes more detailed requirements around making enquiries related to NOCLAR. These were amended by the IAASB when relooking at the NOCLAR conforming amendments. We have limited any changes to the requirements to the section on communication with those charged with governance.
40. The matter arising in terms of the NOCLAR amendments is how much detail to cover in NZ SRE 2410, given that this review is performed by the auditor and that in many instances the extant standard refers to guidance in the ISAs (NZ). We suggest limiting any application material, and rather referring the auditor to ISA (NZ) 250 (Revised).
41. Another option is to include more detailed application material, similar to conforming amendments to ISRE 2400 (Revised) made by the IAASB. (The applicable text from the application material in ISRE (NZ) 2400 (Revised) has been included for reference purposes within the draft at agenda item 9.3).

Effective date

42. The Board will need to agree on an effective date for the revisions. We recommend aligning with the revised Code of Ethics (and the draft includes the revised title), which will mean the requirements will be effective for interim periods ending December 2019.
43. **Does the Board consider that this will provide enough lead in time?**

Other matters

44. We have identified further areas where changes will be needed as the IAASB finalises the revisions to the risk assessment and quality control standards but have not brought these into the exposure draft. As agreed at the October Board meeting, we suggest that these changes be caught by an annual omnibus standard at a later stage.

EXPOSURE DRAFT NZAUASB 2018-2
PROPOSED AMENDMENTS TO NZ SRE 2410

This exposure draft uses underlines and strike through to indicate proposed changes to NZ SRE 2410

Commented [MP1]: Consider whether to include entire standard or only paragraphs that are revised? To update contents once agreed changes

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Amendments to Other Pronouncements

Operative Date

1. This New Zealand Standard on Review Engagements (NZ SRE) 2410 is effective for reviews of financial statements for periods ending on or after December 31, 2014.
2. This NZ SRE 2410 supersedes Review Standard 1 issued by the External Reporting Board in July 2011.

Commented [MP2]: Remove this sentence?

Introduction

Scope of this NZ SRE 2410

3. This NZ SRE 2410 deals with the auditor's responsibilities when an auditor undertakes an engagement to review the financial statements of an audit client, and on the form and content of the auditor's review report. The term "auditor" is used throughout this NZ SRE 2410, not because the auditor is performing an audit function but because the scope of this NZ SRE 2410 is limited to a review performed by the independent auditor of the financial statements of the entity.
4. This NZ SRE 2410 is directed towards a review of financial statements by an entity's auditor. This NZ SRE 2410 is to be applied, adapted as necessary, when an entity's auditor undertakes an engagement to review historical financial information other than financial statements of an audit client.

Objective

5. The objective of the auditor is to plan and perform the review to enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the financial statement, or complete set of financial statements, is (are) not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A1-A3)

Definitions

6. For the purposes of this NZ SRE 2410, the following terms have the meanings attributed below:
 - (a) Interim financial statements means financial statements that are prepared in accordance with an applicable financial reporting framework for a period that is shorter than the entity's financial year.
 - (b) Financial statements means a structured representation of historical financial information, including disclosures, 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 term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of the financial statement, or in the notes, or incorporated therein by cross-reference.
 - (c) An applicable financial reporting framework means the financial reporting framework adopted by management and, where appropriate, those charged with

governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (a) acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (b) acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.

Requirements

Performing a Review

- 7. The auditor who is engaged to perform a review of financial statements shall perform the review in accordance with this NZ SRE 2410. (Ref: Para. A4)

General Principles of a Review of Financial Statements

- 8. The auditor shall comply with relevant ethical requirements relating to the audit of the annual financial statements of the entity. (Ref: Para. A5)
- 9. The auditor shall implement quality control procedures that are applicable to the individual engagement. (Ref: Para. A6)
- 10. The auditor shall comply with the engagement quality control requirements of ISA (NZ) 220¹ when performing a review engagement in accordance with this NZ SRE 2410.
- 11. The auditor shall plan and perform the review by exercising professional judgement and with an attitude of professional scepticism, recognising that circumstances may exist that cause the financial statements to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A7)

Commented [MP3]: Will need to be amended (if only for (Revised) once quality control standards are updated.

Agreeing the Terms of the Engagement (Ref: Para. A8, A55 and A57)

Preconditions for a Review

- 12. The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from those charged with governance, that they acknowledge and understand their responsibility:
 - (a) ~~F~~or the preparation and fair presentation of the financial statements;

¹ ISA (NZ) 220, Quality Control for an Audit of Financial Statements.

- (b) ~~E~~for such internal controls as management and those charged with governance deem necessary to enable the preparation of the financial statements that are free from material misstatement; and
- (c) ~~T~~o provide the auditor with:
- access to information relevant to the preparation of the financial statements;
 - additional information that the auditor may request for the purposes of the review engagement; and
 - unrestricted access to persons from whom the auditor determines it necessary to obtain evidence.

Agreement on Review Engagement Terms

13. The auditor shall agree the terms of the engagement with those charged with governance, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation.

Procedures for a Review of Financial Statements

Understanding the Entity and its Environment, Including its Internal Control

14. The auditor shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial statements, sufficient to plan and conduct the engagement so as to be able to:
- (a) ~~I~~identify the types of potential material misstatements and consider the ~~likelihood~~ of their occurrence; and
- (b) ~~S~~elect the enquiries, analytical and other review procedures that will provide the auditor with a basis for reporting whether anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A9-A12)
15. In order to plan and conduct a review of financial statements, a recently appointed auditor, who has not yet performed an audit of the annual financial statements in accordance with International Standards on Auditing (New Zealand), shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the ~~annual~~ and interim or other financial statements. (Ref: Para. A13)

Materiality (Ref: Para. A14-A18)

16. The auditor shall consider materiality, using professional judgement, when:
- (a) ~~D~~etermining the nature, timing and extent of review procedures; and
- (b) ~~E~~valuating the effect of misstatements.

Enquiries, Analytical and Other Review Procedures

17. The auditor shall make enquiries, primarily of persons responsible for financial and accounting matters, and perform analytical and other review procedures to enable the

Commented [MP4]: 315 ED – Or magnitude? No change at this stage

Commented [MP5]: Revised ISA 315 will apply to this engagement

Commented [MP6]: 2400 includes more detailed requirements related to the types of procedures the reviewer is doing – the IAASB amended the existing requirement in 2400 to NOCLAR to make conforming amendments to NOCLAR. However, 2410 has no reference to enquiries related to suspected or actual NOCLAR here! ISRE 2400 included additional application material related to enquiry requirements that already reference to NOCLAR, but this differs from extant 2410..

auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework. (Ref: Para. A19-A23)

18. The auditor shall obtain evidence that the financial statements agree or reconcile with the underlying accounting records. (Ref: Para. A24)
19. The auditor shall enquire whether management has identified all events up to the date of the review report that may require adjustment to or disclosure in the financial statements. (Ref: Para. A25)
20. The auditor shall enquire whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When, as the result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall:
 - (a) Enquire of those charged with governance as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation; and
 - (b) Consider the adequacy of the disclosure about such matters in the financial statements. (Ref: Para. A26)
21. When a matter comes to the auditor's attention that leads the auditor to question whether a material adjustment should be made for the financial statements to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall make additional enquiries or perform other procedures to enable the auditor to express a conclusion in the review report. (Ref: Para. A27)

Comparatives – First Financial Statements (Ref: Para. A28-A31)

22. When comparative information is included for the first time in the financial statements, an auditor shall perform similar procedures on the comparative information as applied to the current period financial statements.

Evaluation of Misstatements (Ref: Para. A32-A34)

23. The auditor shall evaluate, individually and in the aggregate, whether uncorrected misstatements that have come to the auditor's attention are material to the financial statements.

Written Representations

24. The auditor shall endeavour to obtain written representations from those charged with governance, that:
 - (a) They acknowledge their responsibility for the design and implementation of internal control to prevent and detect fraud and error;
 - (b) The financial statements are prepared and presented in accordance with the applicable financial reporting framework;
 - (c) They believe the effect of those uncorrected misstatements aggregated by the auditor during the review are immaterial, both individually and in the aggregate,

to the financial statements taken as a whole. A summary of such items is included in or attached to the written representations;

- (d) They have disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to them that may have affected the entity;
 - (e) They have disclosed to the auditor the results of their assessment of the risk that the financial statements may be materially misstated as a result of fraud;
 - (f) They have disclosed to the auditor all ~~known actual identified~~ or ~~possible suspected~~ non-compliance with laws and regulations, the effects of which are to be considered when preparing the financial statements; and
 - (g) They have disclosed to the auditor all significant events that have occurred subsequent to the balance sheet date and through to the date of the review report that may require adjustment to or disclosure in the financial statements. (Ref: Para. A35)
 - (h) They have disclosed to the auditor all information relevant to the use of the going concern ~~assumption basis of accounting in the financial statements~~.
25. If those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation on the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate.

Auditor's Responsibility for Accompanying Other Information

26. The auditor shall read the other information that accompanies the financial statements to ~~consider whether there is any material inconsistencies such information is materially inconsistent~~ with the financial statements. (Ref: Para. A36)
27. If a matter comes to the auditor's attention that causes the auditor to believe that the other information appears to include a material misstatement of fact, the auditor shall discuss the matter with the entity's management, and where appropriate, those charged with governance. (Ref: Para. A37)

Commented [MP7]: This is the defined term in ISA 720 (Revised)

Commented [MP8]: An audit requires the auditor to identify, consider still appropriate for a review?

Communication

28. When, as a result of performing a review of the financial statements, a matter comes to the auditor's attention that causes the auditor to believe that it is necessary to make a material adjustment to the financial statements for them to be prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall communicate this matter as soon as practicable to the appropriate level of management.
29. When, in the auditor's judgement, management does not respond appropriately within a reasonable period of time, the auditor shall inform those charged with governance. (Ref: Para. A38)
30. When, in the auditor's judgement, those charged with governance do not respond appropriately within a reasonable period of time, the auditor shall consider:
- (a) Whether to modify the review report; or
 - (b) The possibility of withdrawing from the engagement; and

- (c) ~~The~~ possibility of resigning from the appointment to audit the annual financial statements. (Ref: Para. A36 and A58)

31. When, as a result of performing the review of the financial statements, a matter comes to the auditor's attention that ~~causes indicates the auditor to believe in~~ the existence of fraud or non-compliance ~~by the entity~~ with laws and regulations or suspected fraud or non-compliance with laws and regulations, has occurred in the entity, the auditor shall:

- (a) ~~C~~ommunicate the matter, unless prohibited by law or regulation, as soon as practicable ~~with to~~ those charged with governance; (Ref: Para. A39)
- (b) Request management's assessment of the effect(s), if any, on the financial statements;
- (c) ~~and shall C~~onsider the ~~implications effect on for~~ the auditor's conclusion and the review report; and
- (d) Determine whether law, regulation or relevant ethical requirements:
 - (i) Require the auditor to report to an appropriate authority outside the entity.
 - ~~(+)(ii) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances. (Ref: Para. A39)~~

Commented [MP9]: Aligns with conforming amendments to ISRE 2400 (Revised)

Commented [MP10]: ISRE 2400 refers to management or those charged with governance but leave as was in NZ SRE?

31.32. The auditor shall communicate relevant matters of governance interest arising from the review of the financial statements to those charged with governance. (Ref: Para. A40 and A59)

Reporting the Nature, Extent and Results of the Review of Financial Statements

~~32.33.~~ The auditor shall issue a written report, ~~that contains the following:~~

~~33.34.~~ The report shall have An appropriate title clearly identifying it as a review report of the independent auditor.

35. The report shall be ~~An~~ addresseeed, as required by the circumstances of the engagement.

- ~~(a)~~ The first section of the report shall include the auditor's conclusion, and shall have the heading "Conclusion". The Conclusion section of the report shall:

36.

- (a) ~~Identification of the entity whose~~ financial statements have been reviewed;
- (b) State that the financial statements have been reviewed;
- (c) ~~including i~~dentification of the title of each of the statements ~~contained comprising in~~ the financial statements; and
- ~~(b)(d)~~ Specify the date of, and/or period covered by, each the financial statement comprising the financial statements.

Commented [MP11]: Refer to the notes, including the summary of significant accounting policies? To add?

37. If the financial statements comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting fair presentation framework designed to achieve fair presentation, the report shall include a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial statements do not present fairly, or if applicable, are not true

Commented [MP12]: ISA (NZ) 700 is prescriptive as to eth phrases to be used in the opinion. I have not amended to reflect the same level of prescription but amended the existing requirement to make it a stand alone requirement.

and fair, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when New Zealand is not the origin of the financial reporting framework used).

38. In other circumstances, the report shall include a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when New Zealand is not the origin of the financial reporting framework used).

39. The report shall include a section, directly following the Conclusion section, with the heading "Basis for Conclusion", that:

(a) ~~A statement~~ that the review of the financial statements was conducted in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*; ~~and~~

(b) Refers to the section of the report that describes the auditor's responsibilities under NZ SRE 2410;

(c) Includes a statement ~~that NZ SRE 2410 requires the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit of the annual financial statements, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall refer to Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board. Professional and Ethical Standard 1 (Revised) is as least as restrictive as Parts A and B of the IESBA Code related to a review of financial statements, to comply with ethical requirements relevant to the audit of the annual financial statements.~~

The statement shall identify New Zealand as the origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (Including International Independence Standards)*

(d) Includes ~~A~~ a statement as to the existence of any relationship (other than that of ~~assurance practitioner~~ auditor) which the ~~assurance practitioner~~ auditor has with, or any interests which the ~~assurance practitioner~~ auditor has in, the entity or any of its subsidiaries.

40. The report shall include a section with a heading "Responsibilities of Those Charged with Governance for the Financial Statements." This section of the report shall describe the responsibilities of those charged with governance for:

(a) ~~If the financial statements comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that those charged with governance are responsible for the Ppreparation and fair presentation of the~~

Commented [MP13]: Do we need to add this requirement to get the order of the report to follow 700?

Commented [MP14]: Or review? These words don't actually appear in the illustration as the illustration names the requirements as PES 1.

Commented [MP15]: Title – effective date to align with restructured Code?

Commented [MP16]: Problematic sentence.

Commented [MP17]: An alternative to consider is illustrated in the box below.

Commented [MP18]: Is it not auditor in this case? As this standard is dealing with the review performed by the auditor? Correction from extant?

Commented [MP19]: 700 requirements include a statement that the auditor believes that the audit evidence obtained is sufficient and appropriate to identify the relationships with, or interest in, the entity.

financial statements in accordance with the applicable financial reporting framework, and for such internal control as 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; and

Commented [MP20]: Was previously in the illustration but not in the requirements so add in here consistent with illustration and ISA 700

- (e)(b) Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern.

Commented [MP21]: Introduce new mandatory statement on GC as done in ISA 700?

41. When the financial statements are prepared in accordance with a fair presentation framework, the description of responsibilities for the financial statements in the auditor's report shall refer to the "preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view" as appropriate. In other circumstances, a statement that those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

- 34.42. The report shall include a section with the heading "Auditor's Responsibilities for the Review of the Financial Statements." This section of the report shall:

Commented [MP22]: No option to refer to the website to be included in NZ SRE 2410. The responsibility section is condensed therefore no real need to do so?

- (a) A statementState that the auditor is responsible for expressing a conclusion on the financial statements based on the review.

- ~~(b)(a) A statement that the review of the financial statements was conducted in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity and that NZ SRE 2410 requires the auditor to comply with ethical requirements relevant to the audit of the annual financial statements.~~

- (b) A statementState that a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

- (c) State that the auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If the auditor considers that a material uncertainty exists, the auditor is required to draw attention in the review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the conclusion. The auditor's conclusions are based on the evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- (d) A statementState that a review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit, and that accordingly no audit opinion is expressed.

- ~~(e)(a) If the financial statements comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial statements do not present fairly, or if applicable, are not true and fair, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the~~

~~financial reporting framework when New Zealand is not the origin of the financial reporting framework used).~~

~~(f)(a) In other circumstances, a conclusion as to whether anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when New Zealand is not the origin of the financial reporting framework used).~~

43. The name of the engagement partner shall be included in the review report on financial statements of FMC reporting entities considered to have a higher level of public accountability unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.

35.44. The review report shall be dated date of the auditor's review report.

36.45. The review report shall name the location in the country or jurisdiction where the auditor practices.

37.46. The review report shall be signed auditor's signature. (Ref: Para. A41)

~~(a) A statement as to the existence of any relationship (other than that of assurance practitioner) which the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity or any of its subsidiaries.~~

Departure from the Applicable Financial Reporting Framework

38.47. The auditor shall express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe that a material adjustment should be made to the financial statements for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor shall amend the heading "Basis for Conclusion" to "Basis for Qualified Conclusion" or "Basis for Adverse Conclusion" include a basis for modification paragraph in the report, that describes the nature of the departure and, if practicable, states the effects on the financial statements. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefore shall be included in the basis for modification paragraph Basis for Conclusion section. The conclusion paragraph shall be headed "Qualified Conclusion" or "Adverse Conclusion", whichever is relevant. (Ref: Para. A42)

39.48. When the effect of the departure is so material and pervasive to the financial statements that the auditor concludes a qualified conclusion is not adequate to disclose the misleading or incomplete nature of the financial statements, the auditor shall express an adverse conclusion. (Ref: Para. A43)

Limitation on Scope (Ref: Para. A44)

40.49. When the auditor is unable to complete the review, the auditor shall communicate, in writing, to the appropriate level of management and to those charged with governance the reason why the review cannot be completed, and consider whether it is appropriate to issue a review report.

Limitation on Scope Imposed by Management

~~41.50.~~ Unless required by law or regulation, an auditor shall not accept an engagement to review the financial statements when management has imposed a limitation on the scope of the auditor's review. (Ref: Para. A45 and A58)

~~42.51.~~ If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor shall request management to remove the limitation. If management refuses the auditor's request to remove the limitation, the auditor shall communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. (Ref: Para. A46)

~~52.~~ If management and, where appropriate, those charged with governance, refuses the auditor's request to remove a limitation that has been imposed on the scope of the review, but there is a legal or regulatory requirement for the auditor to issue a report, the auditor shall issue a disclaimer of conclusion or qualified conclusion report, as appropriate, containing the reason(s) why the review cannot be completed. (Ref: Para. A47)

~~53.~~ When the auditor disclaims a conclusion on the financial statements, the auditor shall amend the description of the auditor's responsibilities required by paragraph 42 to include only:

(a) A statement that the auditor's responsibility is to conduct the review of the entity's financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*;

~~(a)(b)~~ A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Conclusion section, the auditor was not able to obtain sufficient evidence to provide a basis for a review conclusion on the financial statements; and

Other Limitations on Scope Not Imposed by Management (Ref: Para. A48-A49)

~~43.54.~~ The auditor shall express a qualified conclusion when, in rare circumstances, there is a limitation on the scope of the auditor's work that is confined to one or more specific matters, which while material, is not in the auditor's judgement pervasive to the financial statements, and when the auditor concludes that an unqualified opinion cannot be expressed. A qualified conclusion shall be expressed as being "except for" the effects of the matter to which the qualification relates. ~~The~~ conclusion paragraph shall be headed "Qualified Conclusion".

Commented [MP23]: Seems consistent with the changes introduced. Any further change identified?

Going Concern and ~~Significant~~ a Material Uncertainty Exists (Ref: Para. A50-A54)

~~44.55.~~ If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall include a separate section under the heading "Material Uncertainty Related to Going Concern" ~~add an emphasis of matter paragraph~~ to the review report to highlight a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern ~~and that the auditor's conclusion is not modified in respect of the matter.~~

~~56.~~ If a material uncertainty that casts significant doubt on the entity's ability to continue as a going concern is not adequately disclosed in the financial statements, the auditor shall express a qualified or adverse conclusion, as appropriate. The report shall include specific reference to the fact that there is such a material uncertainty ~~that may cast significant doubt on the entity's ability to continue as a going concern and that~~

the financial statements do not adequately disclose this matter in the Basis for Qualified (Adverse) Conclusion section of the review report.

Emphasis of Matter Paragraphs

~~45.57. In circumstances other than a going concern problem, t~~The auditor shall consider adding an emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements highlight a significant uncertainty that is adequately disclosed in the financial statements, that came to the auditor's attention, the resolution of which is dependent upon future events and which may materially affect the financial statements.

Commented [MP24]: This does not align with the way in which an emphasis of matter paragraph is described in ISA (NZ) 706

46.58. If a significant uncertainty (other than a going concern problem) is not adequately disclosed in the financial statements, the auditor shall express a qualified or adverse conclusion, as appropriate. The report shall include specific reference to the fact that there is such a significant uncertainty.

Commented [MP25]: Unclear what this relates to now?

Documentation (Ref: Para. A60)

47.59. The auditor shall prepare review documentation that is sufficient and appropriate to provide a basis for the auditor's conclusion, and to provide evidence that the review was performed in accordance with this NZ SRE 2410 and applicable legal and regulatory requirements.

* * *

Application and Other Explanatory Material

Objective (Ref: Para. 5)

- A1. Under paragraph 14, the auditor needs to make enquiries, and perform analytical and other review procedures in order to reduce to a limited level the risk of expressing an inappropriate conclusion when the financial statements are materially misstated.
- A2. The objective of a review of the financial statements differs significantly from that of an audit conducted in accordance with International Standards on Auditing (New Zealand). A review of the financial statements does not provide a basis for expressing an opinion whether the financial statements give a true and fair view, or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
- A3. A review, in contrast to an audit, is not designed to obtain reasonable assurance that the financial statements are free from material misstatement. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review may bring significant matters affecting the financial statements to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

Performing a Review (Ref: Para 7)

- A4. Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the financial statements, under paragraph 13, the auditor needs to update this understanding through enquiries made in the course of

the review, to assist the auditor in focusing the enquiries to be made and the analytical and other review procedures to be applied. An assurance practitioner who is engaged to perform a review of the financial statements, and who is not the auditor of the entity, does not perform the review in accordance with NZ SRE 2410*, as the assurance practitioner ordinarily does not have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity.

Although other International Standards on Auditing (New Zealand) do not apply to review engagements, they include guidance which may be helpful to auditors performing reviews covered by this NZ SRE 2410.

General Principles of a Review of Financial Statements

- A5. Relevant ethical requirements² govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behaviour, and technical standards. (Ref: Para. 8)
- A6. The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring. (Ref: Para. 9)
- A7. An attitude of professional scepticism denotes that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by those charged with governance of the entity. ISA (NZ) 200 includes guidance which may be helpful.* (Ref: Para. 11)

Commented [MP26]: Issue of relevant ethical standards to be resolved

Commented [MP27]: What does this mean? This is not a fundamental principle and seems out of place here – can I delete?

Agreeing the Terms of the Engagement

- A8. Written agreement of the terms of the engagement helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, the responsibilities of those charged with governance, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. The communication ordinarily covers the following matters:
- (a) the objective of a review of the financial statements;
 - (b) the scope of the review;
 - (c) the responsibilities of those charged with governance for:
 - (i) the financial statements;
 - (ii) establishing and maintaining effective internal control relevant to the preparation of the financial statements; and

* See ISRE (NZ) 2400 *Engagements to Review Historical Financial Statements*.

² Professional and Ethical Standard 1 (Revised), [International Code of Ethics for Assurance Practitioners \(including International Independence Standards\) \(New Zealand\)](#).

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

- (iii) making all financial records and related information available to the auditor;
- (d) agreement from those charged with governance:
 - (i) to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records; and
 - (ii) that where any document containing the financial statements indicates that the financial statements has been reviewed by the entity's auditor, the review report also will be included in the document; and
- (e) the anticipated form and content of the report to be issued, including the identity of the addressee of the report.

An illustrative engagement letter is set out in Appendix 1. The terms of engagement to review the financial statements can also be combined with the terms of engagement to audit the annual financial statements. ISA (NZ) 210 includes guidance which may be helpful.* (Ref: Para. 12)

Procedures for a Review of the Financial Statements

Understanding the Entity and its Environment, Including its Internal Control

A9. Under **ISA (NZ) 315 Identifying and Assessing the Risks of Material Misstatement** through Understanding the Entity and Its Environment, the auditor who has audited the entity's financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of the annual financial statements, that was sufficient to conduct the audit. In planning a review of the financial statements, the auditor needs to update this understanding. The auditor also needs to obtain a sufficient understanding of internal control as it relates to the preparation of the financial statements subject to review, as it may differ from internal control as it relates to the preparation of the annual financial statements. (Ref: Para. 14)

Commented [MP28]: Will need update but not yet

A10. The auditor needs to use the understanding of the entity and its environment, including its internal control, to determine the enquiries to be made and the analytical and other review procedures to be applied, and to identify the particular events, transactions or assertions to which enquiries may be directed or analytical or other review procedures applied. (Ref: Para. 14)

A11. The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following:

- (a) reading the documentation, to the extent necessary, of the preceding year's audit, reviews of prior period(s) of the current year, and corresponding period(s) of the prior year, to enable the auditor to identify matters that may affect the current-period financial statements;
- (b) considering any significant risks, including the risk of management override of controls, that were identified in the audit of the prior year's financial statements;

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

- (c) reading the most recent annual and comparable prior period financial statements;
- (d) considering materiality with reference to the applicable financial reporting framework as it relates to the financial statements, to assist in determining the nature and extent of the procedures to be performed and evaluating the effect of misstatements;
- (e) considering the nature of any corrected material misstatements and any identified uncorrected immaterial misstatements in the prior year's financial statements;
- (f) considering significant financial accounting and reporting matters that may be of continuing significance, such as material weaknesses in internal control;
- (g) considering the results of any audit procedures performed with respect to the current year's financial statements;
- (h) considering the results of any internal audit performed and the subsequent actions taken by management;
- (i) enquiring of management about the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- (j) enquiring of management about the effect of changes in the entity's business activities;
- (k) enquiring of management about any significant changes in internal control and the potential effect of any such changes on the preparation of the financial statements; and
- (l) enquiring of management of the process by which the financial statements have been prepared and the reliability of the underlying accounting records to which the financial statements are agreed or reconciled. (Ref: Para. 14)

A12. The auditor needs to determine the nature of the review procedures, if any, to be performed for components and, where applicable, communicate these matters to other auditors involved in the review. Factors considered ordinarily include the materiality of, and risk of misstatement in, the financial statement components, and the auditor's understanding of the extent to which internal control over the preparation of such financial statements is centralised or decentralised. (Ref: Para. 14)

A13. Obtaining an understanding of the entity and its environment enables the auditor to focus the enquiries made, and the analytical and other review procedures applied in performing a review of the financial statements in accordance with this NZ SRE 2410. As part of obtaining this understanding, ordinarily the auditor makes enquiries of the predecessor auditor and, where practicable, reviews the predecessor auditor's documentation for the preceding annual audit and for any prior periods in the current year that have been reviewed by the predecessor auditor. In doing so, ordinarily the auditor considers the nature of any corrected misstatements, and any uncorrected misstatements aggregated by the auditor, any significant risks, including the risk of management override of controls, and significant accounting and any reporting matters that may be of continuing significance, such as material weaknesses in internal control. (Ref: Para. 15)

Materiality (Ref: Para. 16)

- A14. The auditor needs to use professional judgement and consider qualitative and quantitative factors in determining materiality.
- A15. Ordinarily, the auditor's consideration of materiality for a review of the financial statements is based on the period financial data and accordingly, materiality based on interim period financial data may be less than materiality for annual financial data. If the entity's business is subject to cyclical variations or if the financial results for the current period show an exceptional decrease or increase compared to prior periods and expected results for the current year, the auditor may, for example, conclude that materiality is more appropriately determined using a normalised figure for the period.
- A16. The auditor's consideration of materiality, in evaluating the effects of misstatements, is a matter of professional judgement and is affected by the auditor's perception of the financial information needs of users of the financial statements.
- A17. If the applicable financial reporting framework contains a definition of materiality, it will ordinarily provide a frame of reference to the auditor when determining materiality for planning and performing the review.
- A18. The auditor needs, when relevant, to consider materiality from the perspective of both the entity and the consolidated entity.

Enquiries, Analytical and Other Review Procedures

- A19. A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of the financial statements ordinarily are limited to making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures, rather than corroborating information obtained concerning matters relating to the financial statements. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the financial statements, affects the nature and extent of the enquiries made, and analytical and other review procedures applied. (Ref: Para. 17)
- A20. The auditor ordinarily performs the following procedures:
- (a) Reading the minutes of the meetings of shareholders, those charged with governance and other appropriate committees to identify matters that may affect the financial statements, and enquiring about matters dealt with at meetings for which minutes are not available that may affect the financial statements.
 - (b) Considering the effect, if any, of matters giving rise to a modification of the audit or review report, accounting adjustments or unadjusted misstatements, at the time of the previous audit or reviews.
 - (c) Communicating, where appropriate, with other auditors who are performing a review of the financial statements of the entity's significant components.
 - (d) Enquiring of members of management responsible for financial and accounting matters, and others as appropriate, about the following:
 - (i) whether the financial statements have been prepared and presented in accordance with the applicable financial reporting framework;

- (ii) whether there have been any changes in accounting principles or in the methods of applying them;
 - (iii) whether any new transactions have necessitated the application of a new accounting principle;
 - (iv) whether the financial statements contain any known uncorrected misstatements;
 - (v) unusual or complex situations that may have affected the financial statements, such as a business combination or disposal of a segment of the business;
 - (vi) significant assumptions that are relevant to the fair value measurement or disclosures and management's intention and ability to carry out specific courses of action on behalf of the entity;
 - (vii) whether related party transactions have been appropriately accounted for and disclosed in the financial statements;
 - (viii) significant changes in commitments and contractual obligations;
 - (ix) significant changes in contingent assets and contingent liabilities including litigation or claims;
 - (x) compliance with debt covenants;
 - (xi) matters about which questions have arisen in the course of applying the review procedures;
 - (xii) significant transactions occurring in the last several days of the period or the first several days of the next period;
 - (xiii) knowledge of any fraud or suspected fraud affecting the entity involving:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - (xiv) knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial information communicated by employees, former employees, analysts, regulators or others; and
 - (xv) knowledge of any actual or ~~possible-suspected~~ non-compliance with laws and regulations that could have a material effect on the financial statements.
- (e) Applying analytical procedures to the financial statements designed to identify relationships and individual items that appear to be unusual and that may reflect a material misstatement in the financial statements. Analytical procedures may include ratio analysis and statistical techniques such as trend analysis or regression analysis and may be performed manually or with the use of computer-assisted auditing techniques. Appendix 2 to this NZ SRE 2410 contains examples of analytical procedures the auditor may consider when performing a review of the financial statements.

Commented [MP29]: Outdates – will need updating (wait for 315?)

- (f) Reading the financial statements and considering whether anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not in accordance with the applicable financial reporting framework. (Ref: Para. 16)

A21. The auditor may perform many of the review procedures before or simultaneously with the entity's preparation of the financial statements. For example, it may be practicable to update the understanding of the entity and its environment, including its internal control, and begin reading applicable minutes before the end of the period. Performing some of the review procedures earlier in the period also permits early identification and consideration of significant accounting matters affecting the financial statements. (Ref: Para. 17)

A22. The auditor performing a review of the financial statements is also the auditor of the annual financial statements of the entity. For convenience and efficiency, the auditor may decide to perform certain audit procedures concurrently with the review of the financial statements. For example, information gained from reading the minutes of meetings of the board of directors in connection with the review of the financial statements may also be used for the annual audit. The auditor may decide also to perform, at the time of the review, auditing procedures that would need to be performed for the purpose of the audit of the annual financial statements, for example, performing auditing procedures on:

- (a) significant or unusual transactions that occurred during the period, such as business combinations, restructurings, or significant revenue transactions, or
- (b) opening balances (when applicable). (Ref: Para. 17)

A23. A review of financial statements ordinarily does not require corroborating the enquiries about litigation or claims. It is, therefore, ordinarily not necessary to send an enquiry letter to the entity's lawyer. Direct communication with the entity's lawyer with respect to litigation or claims, or alternative procedures, may, however, be appropriate if a matter comes to the auditor's attention that causes the auditor to question whether the financial statements are in accordance with the applicable financial reporting framework. (Ref: Para. 17)

A24. The auditor may obtain evidence that the financial statements agree or reconcile with the underlying accounting records by tracing the financial statements to:

- (a) the accounting records, such as the general ledger, or a consolidating schedule that agrees or reconciles with the accounting records; and
- (b) other supporting data in the entity's records as necessary. (Ref: Para. 18)

A25. The auditor need not perform procedures to identify events occurring after the date of the review report. (Ref: Para. 19)

A26. Events or conditions which may cast significant doubt on the entity's ability to continue as a going concern may have existed at the date of the annual financial statements, or may be identified as a result of enquiries of management or in the course of performing other review procedures. When such events or conditions come to the auditor's attention, the auditor needs to enquire of those charged with governance as to their plans for future action, such as their plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital. The auditor needs to enquire also as to the feasibility of the plans of those charged

Commented [MP30]: Material uncertainty?

with governance and whether they believe that the outcome of these plans will improve the situation. Ordinarily, the auditor considers, based on procedures performed, whether it is necessary to corroborate the feasibility of the plans of those charged with governance and whether the outcome of these plans will improve the situation. (Ref: Para. 20)

- A27. For example, if the auditor's review procedures lead the auditor to question whether a significant sales transaction is recorded in accordance with the applicable financial reporting framework, the auditor performs additional procedures sufficient to resolve the auditor's questions, such as discussing the terms of the transaction with senior marketing and accounting personnel or reading the sales contract. (Ref: Para. 21)

Comparatives – First Financial Statements (Ref: Para. 22)

- A28. When comparative information is included in the first financial statements and the auditor is unable to obtain sufficient appropriate review evidence to achieve the review objective, a limitation on the scope of the review exists and the auditor needs to modify the review report. Ordinarily, a restriction on the scope of the auditor's work will result in a qualified ("except for") conclusion. In such cases, ordinarily an auditor encourages clear disclosure in the financial statements, that the auditor has been unable to review the comparatives. An example of a modified review report is included in Appendix 3.
- A29. When comparative information is included in the first financial statements and the auditor believes a material adjustment should be made to the financial statements, under paragraph 34, the auditor needs to modify the review report.
- A30. When an entity has come into existence only within the first financial reporting period, comparative information will not be provided in the first financial statements and no modified review report is required.
- A31. New Zealand Equivalent to International Accounting Standard 1 *Presentation of Financial Statements* provides requirements and explanatory guidance relating to comparative information included in financial statements prepared in accordance with New Zealand Accounting Standards. New Zealand Equivalent to International Financial Reporting Standards 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* provides requirements and guidance relating to comparative information when an entity adopts New Zealand Equivalents to International Financial Reporting Standards for the first time.

Evaluation of Misstatements (Ref: Para. 23)

- A32. A review of the financial statements, in contrast to an audit engagement, is not designed to obtain reasonable assurance that the financial statements are free from material misstatement. However, misstatements which come to the auditor's attention, including inadequate disclosures, need to be evaluated individually and in the aggregate to determine whether a material adjustment is required to be made to the financial statements for them to be prepared, in all material respects, in accordance with the applicable financial reporting framework.
- A33. The auditor needs to exercise professional judgement in evaluating the materiality of any misstatements that the entity has not corrected. Ordinarily, the auditor considers matters such as the nature, cause and amount of the misstatements, whether the

misstatements originated in the preceding year or current year, and the potential effect of the misstatements on future interim or annual periods.

- A34. The auditor may designate an amount below which misstatements need not be aggregated, because the auditor expects that the aggregation of such amounts clearly would not have a material effect on the financial statements. In so doing, under paragraph 16, the auditor needs to consider the fact that the determination of materiality involves quantitative as well as qualitative considerations and that misstatements of a relatively small amount could nevertheless have a material effect on the financial statements.

Written Representations

- A35. The auditor needs to endeavour to obtain additional representations as are appropriate to matters specific to the entity's business or industry. An illustrative representation letter is set out in Appendix 1. (Ref: Para. 24)

Auditor's Responsibility for ~~Accompanying~~ Other Information

- A36. If the auditor identifies a material inconsistency, the auditor needs to consider whether the financial statements or the other information needs to be amended. If an amendment is necessary in the financial statements and those charged with governance refuse to make the amendment, under paragraph 30, the auditor needs to consider the implications for the review report. If an amendment is necessary in the other information and those charged with governance refuse to make the amendment, the auditor may, for example, consider including in the review report an Other Matter Paragraph describing the material inconsistency (ISA (NZ) 720 [\(Revised\)](#) and ISA (NZ) 706 [\(Revised\)](#) include guidance which may be helpful³) or taking other actions, such as withholding the issuance of the review report or withdrawing from the engagement. For example, those charged with governance may present alternative measures of earnings that more positively portray financial performance than the financial statements, and such alternative measures are given excessive prominence, or are not clearly defined, or not clearly reconciled to the financial statements such that they are confusing and potentially misleading. (Ref: Para. 26)

- A37. While reading the other information for the purpose of identifying material inconsistencies, an apparent material misstatement of fact may come to the auditor's attention (that is, information, not related to matters appearing in the financial statements, that is incorrectly stated or presented). When discussing the matter with the entity's management, ordinarily the auditor considers the validity of the other information and management's responses to the auditor's enquiries, whether valid differences of judgement or opinion exist and whether to request management to consult with a qualified third party to resolve the apparent misstatement of fact. If an amendment is necessary to correct a material misstatement of fact and management refuses to make the amendment, ordinarily the auditor considers taking further action as appropriate, such as notifying those charged with governance and, if necessary, [considering the implications for the review report obtaining legal advice](#). (Ref: Para. 27)

Commented [MP31]: Consistent with ISA 720 (Revised) para 18?

³ ISA (NZ) 720 [\(Revised\)](#) *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*; and ISA (NZ) 706 [\(Revised\)](#) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

Communication

A38. Communications with management and/or those charged with governance are made as soon as practicable, either orally or in writing. The auditor's decision whether to communicate orally or in writing ordinarily is affected by factors such as the nature, sensitivity and significance of the matter to be communicated and the timing of the communications. If the information is communicated orally, under paragraph 45, the auditor needs to document the communication. (Ref: Para. 29)

A39. The determination of which level of management may also be informed is affected by the likelihood of collusion or the involvement of a member of management. (Ref: Para. 31)

Law or regulation may restrict the auditor's communication of certain matters with management or those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with laws and regulation to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice. ISA (NZ) 250 (Revised) includes guidance which may be helpful.⁴ (Ref. Para 31)

Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- (a) Law, regulation or relevant ethical requirements require the auditor to report;
- (b) The auditor has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements; or
- (c) Law, regulation or relevant ethical requirements provide the auditor with the right to do so.

In some cases the relevant ethical requirements may require the auditor to report or to consider whether reporting identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, Professional and Ethical Standard 1 (Revised) requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations, and determine whether further action is needed, which may include reporting to an appropriate authority outside the entity.⁵ Professional and Ethical Standard 1 (Revised) explains that such reporting would not be considered a breach of the duty of confidentiality under Professional and Ethical Standard 1 (Revised).⁶

A92b. Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the auditor with the right to report identified or suspected fraud or non-compliance with laws and regulations to an appropriate authority outside the entity.

⁴ ISA (NZ) 250 (Revised) *Consideration of Laws and Regulations in an Audit of Financial Statements*.

⁵ See, for example, Section 225.29 of Professional and Ethical Standard 1 (Revised).

⁶ See, for example, Section 140.7 and Section 225.35 of Professional and Ethical Standard 1 (Revised).

Commented [MP32]: From NOCLAR conforming amendments to ISRE (NZ) 2400 (Revised), Do we need to follow this in such detail or can we refer to ISA 250?

This para is also included in ISA (NZ) 260 (Revised). Consider whether just this is sufficient and then reference to ISA (NZ) 250, rather than include the lengthy application material from ISRE 2400 (Revised) which follows?

Commented [MP33]: Suggest adding a simple sentence to refer the auditor to guidance in ISA (NZ) 250 (Revised) rather than expanding on the application material as added in ISRE (NZ) 2400 (Revised) which is included in the boxes that follow for information purposes.

A92c. In other circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.

A92d. The determination required by paragraph 52(d) may involve complex considerations and professional judgements. Accordingly, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or a professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The assurance practitioner may also consider obtaining legal advice to understand the assurance practitioner's options and the professional or legal implications of taking any particular course of action.

(a)(d)

A40. As a result of performing a review of financial statements, the auditor may become aware of matters that in the opinion of the auditor are both important and relevant to those charged with governance in overseeing the financial reporting and disclosure process. (Ref: Para. 32)

Reporting the Nature, Extent and Results of the Review of Financial Statements (Ref: Para. 33)

A41. In some cases, law or regulation governing the review of financial statements may prescribe wording for the auditor's conclusion that is different from the wording described in paragraph 33(j). Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities as described in this NZ SRE 2410 for coming to the conclusion remain the same. ISA (NZ) 700 ([Revised](#)) includes guidance which may be helpful.⁷ Illustrative review reports are set out in Appendix 3.

Departure from the Applicable Financial Reporting Framework

(Ref: Para. 34–35)

A42. If matters have come to the auditor's attention that cause the auditor to believe that the financial statements are or may be materially affected by a departure from the applicable financial reporting framework, and those charged with governance do not correct the financial statements, the auditor needs to modify the review report. If the information that the auditor believes is necessary for adequate disclosure is not included in the financial statements, the auditor needs to modify the review report and, if practicable, include the necessary information in the review report. Illustrative review reports with a qualified conclusion are set out in Appendix 3.

A43. Departures from the applicable financial reporting framework, may result in an adverse conclusion. An illustrative review report with an adverse conclusion is set out in Appendix 3.

Limitation on Scope (Ref: Para. 36)

A44. Ordinarily, a limitation on scope prevents the auditor from completing the review.

⁷ ISA (NZ) 700 ([Revised](#)) *Forming an Opinion and Reporting on Financial Statements*.

Limitation on Scope Imposed by Management

- A45. The auditor needs to refuse to accept an engagement to review financial statements if the auditor's preliminary knowledge of the engagement circumstances indicates that the auditor would be unable to complete the review because there will be a limitation on the scope of the auditor's review imposed by management of the entity. (Ref: Para. 37)
- A46. If, after accepting the engagement, management imposes a limitation on the scope of the review, the auditor needs to request the removal of that limitation. If management refuses to do so, the auditor is unable to complete the review and express a conclusion. In such cases, the auditor needs to communicate, in writing, to the appropriate level of management and those charged with governance, the reason(s) why the review cannot be completed. Nevertheless, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial statements is necessary for the financial statements to be prepared, in all material respects, in accordance with the applicable financial reporting framework, under paragraphs 28, 29 and 31, the auditor needs to communicate such matters to the appropriate level of management and, where appropriate, those charged with governance. (Ref: Para. 38)
- A47. The auditor needs to consider the legal and regulatory requirements, including whether there is a legal requirement for the auditor to issue a report. If there is such a requirement, the auditor needs to disclaim a conclusion and provide in the review report the reason why the review cannot be completed. However, if a matter comes to the auditor's attention that causes the auditor to believe that a material adjustment to the financial statements is necessary for the financial statements to be prepared, in all material respects, in accordance with the applicable financial reporting framework the auditor needs to communicate such a matter in the report. (Ref: Para. 39)

Other Limitations on Scope Not Imposed by Management (Ref: Para. 40)

- A48. A limitation on scope may occur due to circumstances other than a limitation on scope imposed by management or those charged with governance. In such circumstances, the auditor is ordinarily unable to complete the review and express a conclusion, and is guided by paragraphs 39 and 40. There may be, however, some rare circumstances where the limitation on the scope of the auditor's work is clearly confined to one or more specific matters that, while material, are not in the auditor's judgement pervasive to the financial statements. In such circumstances, the auditor needs to modify the review report by indicating that, except for the matter which is described in an explanatory paragraph to the review report, the review was conducted in accordance with this NZ SRE 2410, and by qualifying the conclusion. Illustrative review reports with a qualified conclusion are set out in Appendix 3.
- A49. The auditor may have expressed a qualified opinion on the audit of the latest annual financial statements because of a limitation on the scope of that audit. The auditor needs to consider whether that limitation on scope still exists and, if so, the implications for the review report.

Going Concern and Significant-a Material Uncertainty Exists (Ref: Para. 41-44)

- A50. In certain circumstances, an emphasis of matter paragraph may be added to a review report, without affecting the auditor's conclusion, to highlight a matter that is included

Commented [MP34]: This para previously could relate to Emphasis of Matter paragraphs on GC and other matters – recommend splitting this now?

in a note to the financial statements that more extensively discusses the matter. The paragraph would preferably be included after the conclusion paragraph and ordinarily refers to the fact that the conclusion is not qualified in this respect.

- A51. The auditor may have modified a prior audit or review report by adding an emphasis of matter paragraph to highlight a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern. If the material uncertainty still exists and adequate disclosure is made in the financial statements, the auditor needs to modify the review report on the current financial statements by adding a paragraph to highlight the continued material uncertainty.
- A52. If, as a result of enquiries or other review procedures, a material uncertainty relating to an event or condition comes to the auditor's attention that casts significant doubt on the entity's ability to continue as a going concern, and adequate disclosure is made in the financial statements, the auditor ~~needs to modify the review report by adding an emphasis of matter paragraph~~ alerts users to the existence of a material uncertainty related to going concern in a separate section.
- A53. ISA (NZ) 570 (Revised) *Going Concern* provides information that the auditor may find helpful in considering going concern in the context of the review engagement.
- A54. Ordinarily, a significant uncertainty in relation to any other matter, the resolution of which may materially affect the financial statements, would warrant an emphasis of matter paragraph in the auditor's review report.

Other Considerations

- A55. The terms of the engagement include agreement by those charged with governance that, where any document containing the financial statements indicates that the financial statements have been reviewed by the entity's auditor, the review report will be also included in the document. If those charged with governance have not included the review report in the document, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances. (Ref: Para. 12)
- A56. If the auditor has issued a modified review report and those charged with governance issue the financial statements without including the modified review report in the document containing the financial statements, ordinarily the auditor considers seeking legal advice to assist in determining the appropriate course of action in the circumstances, and the possibility of resigning from the appointment to audit the annual financial statements.

Considerations Specific to Public Sector Entities

- A57. The auditor needs to communicate the terms of engagement to the entity subject to the review. When communicating the terms of engagement, an engagement letter helps to avoid misunderstandings regarding the nature of the engagement and, in particular, the objective and scope of the review, the responsibilities of those charged with governance, the extent of the auditor's responsibilities, the assurance obtained, and the nature and form of the report. Law or regulation governing review engagements in the public sector ordinarily mandates the appointment of the auditor. Nevertheless, an engagement letter setting out the matters referred to in paragraph A8 may be useful to both the public sector auditor and the entity subject to the review. Public sector

auditors, therefore, consider communicating the terms of a review engagement by way of an engagement letter⁸. (Ref: Para. 12)

A58. In the public sector, the auditor's statutory audit obligation may extend to other work, such as a review of interim financial information. Where this is the case, the public sector auditor cannot avoid such an obligation and, consequently, may not be in a position not to accept, or to withdraw from a review engagement. The public sector auditor also may not be in the position to resign from the appointment to audit the annual financial statements. (Ref: Para. 30(b)-30(c) and 37)

A59. The auditor needs to communicate to those charged with governance and consider the implications for the review when a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or non-compliance by the entity with laws and regulations. In the public sector, the auditor may be subject to statutory or other regulatory requirements to report such a matter to regulatory or other public authorities. (Ref: Para. 32)

Documentation (Ref: Para. 45)

A60. The auditor needs to prepare documentation that enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the enquiries made and analytical and other review procedures applied, information obtained, and any significant matters considered during the performance of the review, including the disposition of such matters.

⁸ Paragraphs A57-A59 are a reproduction of the AUASB's standard. The External Reporting Board does not have the statutory mandate to formulate auditing and assurance standards for public sector entities, and does not intend this guidance to have mandatory effect. New Zealand amendments have been made to align the text with the New Zealand legal position.

Example of an Engagement Letter For A Review of Financial Statements

The following letter is to be used as a guide in conjunction with the requirements outlined in paragraph 12-13 of this NZ SRE 2410 and will need to be adapted according to individual requirements and circumstances.

To [those charged with governance:⁹]

You have requested that we review the interim financial statements of [name of entity], which comprises the statement of financial position as at 31 December 20XX, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended on that date, and notes comprising a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of the terms and objectives of our engagement by means of this letter.

Our review will be conducted in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*, issued by the New Zealand Auditing and Assurance Standards Board, with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with the [indicate applicable financial reporting framework, including a reference to the jurisdiction or country of origin of the financial reporting when New Zealand is not the origin of the financial reporting framework]. Such a review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of the financial statements is substantially less than the scope of an audit conducted in accordance with International Standards on Auditing (New Zealand) whose objective is the expression of an opinion regarding the financial statements and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we shall express no such opinion. NZ SRE 2410 requires us to also comply with the ethical requirements relevant to the audit of the annual financial statements of the entity.

We expect to report on the interim financial statements as follows:

[Include text of sample review report - see Appendix 3 as appropriate.]

The directors [those charged with governance¹⁰] of the [type of entity] are responsible for the preparation of the interim financial statements in accordance with generally accepted accounting practice in New Zealand and that gives a true and fair view of the matters to which they relate and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation of the interim financial statements that are free from material misstatement, whether due to fraud or error. As part of our review, we shall request written representations from those charged with governance concerning assertions made in connection with the review. We shall also request that where any document containing the interim financial statements indicates that the interim financial statements have been reviewed, our review report will also be included in the document.

⁹ Insert the appropriate term, such as "Directors" or "Board of Management".

¹⁰ Insert the appropriate term, such as "Directors or Board of Management".

Commented [MP35]: Does this need expansion for going concern or leave as is? ISA 210 illustrative report is structured similar to new auditor's report but this has not been re-ordered here?

Commented [MP36]: To match changes to report – see comment below.

Commented [MP37]: Does this need expansion at this stage – or independence statement only for report?

Commented [MP38]: No reference to going concern responsibilities of TCWG is ISA (NZ) 210

The directors [those charged with governance] of the [entity] acknowledge and understand they have responsibility to provide us with:

- i. access to information relevant to the preparation of the financial statements;
- ii. additional information that we may request for the purposes of the review engagement; and
- iii. unrestricted access to persons from whom we determine it is necessary to obtain evidence.

A review of the interim financial statements does not provide assurance that we shall become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we shall inform you of any material matters that come to our attention.

Fees

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

We look forward to full co-operation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our review.

[This letter will be effective for future years unless it is terminated, amended or superseded.¹¹]

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the interim financial statements.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [entity] by

(signed)

.....

Name and Title

Date

¹¹ Use if applicable.

Example of a Representation Letter

The following letter is not intended to be a standard letter. It is to be used as a guide only and will need to be adapted according to individual requirements and circumstances.

Representations by those charged with governance will vary from one entity to another and from one period to the next. Representation letters are ordinarily useful where evidence, other than that obtained by enquiry, may not be reasonably expected to be available or when those charged with governance have made oral representations which the auditor wishes to confirm in writing.

[Entity Letterhead]

[Addressee – Auditor]

[Date]

This representation letter is provided in connection with your review of the financial statements of [name of entity] for the [period] ended [date], for the purpose of you expressing a conclusion as to whether anything has come to your attention that causes you to believe that the financial statements are not, in all material respects, presented fairly in accordance with [applicable financial reporting framework¹²].

We acknowledge our responsibility for ensuring that the financial statements are in accordance with [applicable financial reporting framework].

We confirm that the financial statements are prepared and presented fairly in accordance with [applicable financial reporting framework] and are free of material misstatements, including omissions].

We confirm, to the best of our knowledge and belief, the following representations made to you during your review.

[Include representations required by this NZ SRE 2410 (paragraph 24) and those relevant to the entity. Such representations may include the following examples.]

1. We have made available to you:
 - (a) all financial records and related data, other information, explanations and assistance necessary for the conduct of the review; and
 - (b) minutes of all meetings of [shareholders, directors, committees of directors, Boards of Management].
2. We have disclosed to you the results of our assessment of the risk that the [financial statements] may be materially misstated as a result of fraud.
3. There:
 - (a) has been no fraud or suspected fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in the internal control structure;
 - (b) has been no fraud or suspected fraud, error or non-compliance with laws and regulations that could have a material effect on the financial statements; and

Commented [MP39]: Is it alright to have suspected here?

¹² Specify the applicable financial reporting framework requirements.

- (c) have been no communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements.
4. We are responsible for an adequate internal control structure to prevent and detect fraud and error and to facilitate the preparation of reliable financial statements. We confirm that adequate accounting records have been maintained and that all material transactions have been recorded properly in the accounting records underlying the financial statements.
 5. We have no plans or intentions that may affect materially the carrying values, or classification, of assets and liabilities.
 6. We have considered the requirements of New Zealand Equivalents to International Accounting Standard 36 Impairment of Assets, when assessing the impairment of assets and in ensuring that no assets are stated in excess of their recoverable amount.
 7. We believe the effects of uncorrected misstatements summarised in the accompanying schedule are immaterial, both individually and in the aggregate, to the [interim] financial statements taken as a whole.
 8. The following have been recorded and/or disclosed properly in the [interim] financial statements:
 - (a) related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees (written or oral);
 - (b) share options, warrants, conversions or other requirements;
 - (c) arrangements involving restrictions on cash balances, compensating balances and line-of-credit or similar arrangements;
 - (d) agreements to repurchase assets previously sold;
 - (e) material liabilities or contingent liabilities or assets including those arising under derivative financial instruments;
 - (f) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements in accordance with the applicable financial reporting framework.
 9. There are no ~~violations or possible violations~~known or suspected non-compliance with laws or regulations the effects of which should be considered for disclosure in the financial statements or as a basis for recording an expense.
 10. The entity has satisfactory title to all assets, and there are no liens or encumbrances on such assets that have not been disclosed nor has any asset been pledged as collateral. Allowances for depreciation have been adjusted for all important items of property, plant and equipment that have been abandoned or are otherwise unusable.
 11. The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance.
 12. There were no material commitments for construction or acquisition of property, plant and equipment or to acquire other non-current assets, such as investments or intangibles, other than those disclosed in the financial statements.

13. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
14. No events have occurred subsequent to the balance sheet date through to the date of this letter that would require adjustment to, or disclosure in, the [financial statements].

We understand that your examination was made in accordance with NZ SRE 2410 and was, therefore, designed primarily for the purpose of expressing a conclusion on the financial statements of [the entity], and that your procedures were limited to those which you considered necessary for that purpose.

Yours faithfully

[Name of signing officer and title]

Notes:

[The above example representation letter may need to be amended in certain circumstances. The following illustrate some of those situations.]

(a) Exceptions

Where matters are disclosed in the financial statements, the associated representation needs to be amended, for example:

- If a subsequent event has been disclosed, Item 14 (above) could be modified to read:
“Except as discussed in Note X to the financial report, no events have occurred”
- If the entity has plans that impact the carrying values of assets and liabilities, Item 5 (above) could be modified to read:
“The entity has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities, except for our plan to dispose of segment X, as disclosed in note Y in the financial statements, which is discussed in the minutes of the meeting of the governing body¹³ held on [date]”.

(b) Other Required Information

Certain entities may be required to include other information in the financial statements, for example, performance indicators for government entities. In addition to identifying this information and the applicable financial reporting framework in paragraphs 1 and 2 of the example representation letter, an additional paragraph similar to the following may be appropriate:

“The disclosures of key performance indicators have been prepared and presented in conformity with [relevant statutory requirements] and we consider the indicators reported to be relevant to the stated objectives of the [entity]”.

(c) Opinions and Representation in the Notes to the Financial Statements

Where the notes to the financial statements include opinions and representations by those charged with governance, such matters may be addressed in the representation letter. For example, notes relating to the anticipated outcome of litigation, the intent

¹³ Insert the appropriate term, such as “Directors or Board of Management”.

Commented [MP40]: Impact for SPI standard and review standard.

and ability to hold long-term securities to maturity and plans necessary to support the going concern basis.

(d) Environmental Matters

In situations where there are environmental matters that may, but probably will not, require an outflow of resources, this may be reflected in an addition to Item 9 (above), for example:

“However, the [entity] has received a notice from the Environmental Protection Agency that it may be required to share in the cost of cleanup of the [name] waste disposal site. This matter has been disclosed in Note A in the financial statements and we believe that the disclosure and estimated contingent loss is reasonable based on available information.”

(e) Compliance

If, as part of the review, the auditor is required also to report on the entity’s compliance with laws and regulations, a representation may be appropriate acknowledging that those charged with governance are responsible for the entity’s compliance with applicable laws and regulations and that the requirements have been met. For example, the following paragraph may be added:

“The financial records of the [company, registered scheme or disclosing entity] have been kept so as to be sufficient to enable financial statements to be prepared and reviewed, and other records and registers required by the [applicable legislation] have been kept properly and are up-to-date.”

(f) Other Matters

Additional representations that may be appropriate in specific situations may include the following:

- Justification for a change in accounting policy.
- The work of a management expert has been used.
- Arrangements for controlling the dissemination of the financial statements and review report on the Internet.

Appendix 2

(Ref: Para. A20)

Analytical Procedures the Auditor May Consider When Performing a Review of Financial Statements

The analytical procedures carried out in a review of the financial statements are determined by the auditor's judgement. The procedures listed below are for illustrative purposes only. It is not intended that all the procedures suggested apply to every review engagement. This Appendix is not intended to serve as a programme or checklist in the conduct of a review.

Examples of analytical procedures the auditor may consider when performing a review of the financial statements include the following:

- Comparing the financial statements with the financial statements of the immediately preceding period, with the financial statements of the corresponding period of the preceding financial year, with the financial statements that was expected by management for the current period, and with the most recent audited annual financial statements.
- Comparing the current financial statements with anticipated results, such as budgets or forecasts. For example, comparing sources of revenue and the cost of sales in the current financial statements with corresponding information in:
 - (a) budgets, including expected gross margin(s); and
 - (b) financial information for prior periods.
- Comparing the current financial statements with relevant non-financial information.
- Comparing the recorded amounts, or ratios developed from recorded amounts, to expectations developed by the auditor. The auditor develops such expectations by identifying and applying relationships that reasonably are expected to exist based on the auditor's understanding of the entity and of the industry in which the entity operates.
- Comparing ratios and indicators for the current period with those of entities in the same industry.
- Comparing relationships among elements in the current financial statements with corresponding relationships in the financial statements of prior periods, for example, expense by type as a percentage of sales, assets by type as a percentage of total assets, and percentage of change in sales to percentage of change in receivables.
- Comparing disaggregated data. The following are examples of how data may be disaggregated:
 - (a) by period, for example, revenue or expense items disaggregated into quarterly, monthly, or weekly amounts;
 - (b) by product line or source of revenue;
 - (c) by location, for example by component;
 - (d) by attributes of the transaction, for example, revenue generated by designers, architects, or craftsmen; and
 - (e) by several attributes of the transaction, for example, sales by product and month.

Appendix 3

(Ref: Para. A41)

Illustrations of Review Reports—Unmodified and Modified Conclusions

Example of an Unmodified -Review Report on Financial Statements

Example of a Review Report with a Qualified Conclusion (Except For) for a Departure from the Applicable Financial Reporting Framework

Example of a Review Report with a Qualified Conclusion for a Limitation On Scope Not Imposed by Management

Example of a Review Report with an Adverse Conclusion for a Departure from the Applicable Financial Reporting Framework

Example of a Review Report with a Qualified Conclusion (Except for) on the Basis that Comparatives have not been Reviewed or Audited

Example of an Unmodified Review Report on Financial Statements

For purposes of this illustrative report, it is assumed that the auditor has reviewed the interim financial statements of a FMC reporting entity considered to have higher level of public accountability.

INDEPENDENT AUDITOR'S REVIEW REPORT

To [Appropriate Addressee]

Report on the [appropriate title for the financial statements] Financial Statements

Conclusion

We have reviewed the accompanying [period] financial statements of [name of entity], which comprise the statement of financial position as at [date], and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the [period] ended on that date, —and a summary of significant accounting policies and other explanatory information.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] do not present fairly, in all material respects, [or “give a true and fair view of¹⁴”] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] ended on that date, in accordance with [applicable financial reporting framework]¹⁵.

or

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework]¹⁶.

Basis for Conclusion

We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Statements section of our report. We are independent of the [entity] in accordance with Professional and Ethical Standard 1 (Revised) *International Code of Ethics for Professional Accountants (including International Independence Standards) (New Zealand)*. ~~As the auditor of [name of entity], NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements relevant to the audit of the annual financial statements. Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].~~

[Title of those charged with governance] Responsibility for the [period] Financial Statements

The [title of those charged with governance] of the [type of entity] are responsible, on behalf of the [entity], for the preparation [and fair presentation] of the [period] financial statements in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the

¹⁴ ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statement*, contains information on the wording of reports that may be helpful.

¹⁵ This conclusion is appropriate where a fair presentation framework has been used.

¹⁶ This conclusion is appropriate where a compliance framework has been used.

Commented [MP41]:

Commented [MP42]: Re-ordered – Conclusion first in para 35.

Commented [MP43]: Para 36

Commented [MP44]: Mandatory order of report – paragraph 39

Commented [MP45]: ISA 700 refers to these requirements – but amended to clarify that under 2410 have to comply with ethical requirements that apply to the annual financial statements. (I think that they would do so anyway under PES 1 as we have aligned the requirements for audits and reviews throughout).

Commented [MP46]: Do you still need this? I don't think so as integrated into the sentence from 700

Commented [MP47]: To match changes previously made to the ISAs (NZ) – made in illustration not in requirements consistent with approach in ISAs (NZ).

preparation *[and fair presentation]* of the *[period]* financial statements that are free from material misstatement, whether due to fraud or error.

Commented [MP48]: Now added into requirement in 40(a)

In preparing the financial statements, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Commented [MP49]: New in para 40(b)

Our Auditor's Responsibilities for the Review of the Financial Statements

Commented [MP50]: Para 42

Our responsibility is to express a conclusion on the *[period]* financial statements based on our review. ~~We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with the [applicable financial reporting framework]. As the auditor of [name of entity], NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.~~

A review of *[period]* financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. *The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.*

Commented [MP51]: Para 42(b)

Commented [MP52]: New in para 42(c)

Commented [MP53]: ISA 700 - to conclude on the appropriateness of the use of the going concern basis of accounting and based on the audit evidence obtained whether a material uncertainty exists

Commented [MP54]: Is this the right word for a review?

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) *and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly we do not express an audit opinion on those financial statements.*

Commented [MP55]: Para 42(d)

Commented [MP56]: To match requirement wording previously in the standard.

Commented [MP57]: No need to include communication with TCWG as done in the auditor's responsibility section – this section is condensed therefore would not fit there?

~~Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].~~

Conclusion

~~Based on our review, nothing has come to our attention that causes us to believe that these *[period]* financial statements of [name of entity] do not present fairly, in all material respects, for "give a true and fair view of"¹⁷ the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the *[period]* ended on that date, in accordance with [applicable financial reporting framework].¹⁸~~

or

¹⁷—ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statement*, contains information on the wording of reports that may be helpful.

¹⁸—This conclusion is appropriate where a fair presentation framework has been used.

~~Based on our review, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].¹⁹~~

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the review resulting in this independent auditor's review report is [name].

Commented [MP58]: New in para 43

[Auditor's signature]²⁰

[Date of the review report]²¹

[Auditor's address]

¹⁹—This conclusion is appropriate where a compliance framework has been used'

²⁰ The review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

²¹ The date of the review report is the date the auditor signs the report.

Example of a Review Report with a Qualified Conclusion (Except For) For a Departure From the Applicable Financial Reporting Framework

INDEPENDENT AUDITOR'S REVIEW REPORT

[Appropriate Addressee]

Report on the [appropriate title for the financial statements] Financial Statements

Qualified Conclusion

We have reviewed the accompanying [period] financial statements of [name of entity], which comprise the statement of financial position as at [date], and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the [period] ended on that date, and a summary of significant accounting policies and other explanatory information.

Based on our review, which is not an audit, with the exception of the matter described in the preceding Basis for Qualified Conclusion section of our report, ~~preceding paragraph~~, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] do not present fairly, in all material respects, [or "give a true and fair view of"²²] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].²³

or

Based on our review, which is not an audit, with the exception of the matter described in the Basis for Qualified Conclusion section of our report, ~~preceding paragraph~~, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].²⁴

Basis for Qualified Conclusion

Based on information provided to us by management, [name of entity] has excluded from property and long-term debt certain lease obligations that we believe should be capitalised to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalised at 31 December 20XX, property would be increased by \$ _____, long-term debt by \$ _____, and net income and earnings per share would be increased (decreased) by \$ _____ and \$ _____ respectively for the [period] ended on that date.

We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (New Zealand). As the auditor of [name of entity],

²² ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statements*, contains information on the wording of reports that may be helpful.

²³ This conclusion is appropriate where a fair presentation framework has been used.

²⁴ This conclusion is appropriate where a compliance framework has been used.

NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].

[Title of those charged with governance] Responsibility for the [period] Financial Statements

The [title of those charged with governance] of the [type of entity] are responsible, on behalf of the entity, for the preparation *[and fair presentation]* of the [period] financial statements in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation *[and fair presentation]* of the [period] financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

~~Our Auditor's Responsibility~~ies for the Review of the Financial Statements

Our responsibility is to express a conclusion on the [period] financial statements based on our review. ~~We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity.~~ NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the [applicable financial reporting framework]. ~~As the auditor of [name of entity], NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.~~

A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly we do not express an audit opinion on those financial statements.

~~Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].~~

~~Basis for Qualified Conclusion~~

~~Based on information provided to us by management, [name of entity] has excluded from property and long term debt certain lease obligations that we believe should be capitalised to~~

Commented [MP59]: To match requirement wording previously in the standard.

~~conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalised at 31 December 20XX, property would be increased by \$ _____, long term debt by \$ _____, and net income and earnings per share would be increased (decreased) by \$ _____ and \$ _____ respectively for the [period] ended on that date.~~

~~Qualified Conclusion~~

~~Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] do not present fairly, in all material respects, [or “give a true and fair view of”²⁵] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].²⁶~~

~~or~~

~~Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].²⁷~~

Report on Other Legal and Regulatory Requirements

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

[The engagement partner on the review resulting in this independent auditor’s review report is \[name\].](#)

[Auditor’s signature]²⁸

[Date of the review report]²⁹

[Auditor’s address]

²⁵—ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statements*, contains information on the wording of reports that may be helpful.

²⁶—This conclusion is appropriate where a fair presentation framework has been used.

²⁷—This conclusion is appropriate where a compliance framework has been used.

²⁸ The review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

²⁹ The date of the review report is the date the auditor signs the report.

Example of an Review Report with a Qualified Conclusion For a Limitation on Scope Not Imposed by Management or Those Charged with Governance

INDEPENDENT AUDITOR'S REVIEW REPORT

To [Appropriate Addressee]

Report on the [appropriate title for the financial statements] Financial Statements

Qualified Conclusion

We have reviewed the accompanying [period] financial statements of [name of entity], which comprises the statement of financial position as at [date], and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the [period] ended on that date, and a summary of significant accounting policies and other explanatory information.

Except for the adjustments to the [period] financial statements that we might have become aware of had it not been for the situation described above, based on our review nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] does not present fairly, in all material respects, [or "give a true and fair view of"³⁰] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].³¹

or

Except for the adjustments to the [period] financial statements that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].³²

Basis for Qualified Conclusion

As a result of a fire in a branch office on [date] that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totalling \$ _____ included in the [period] financial statements. The [entity] is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the [period] financial statements.

We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Statements section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (New Zealand). As the auditor of [name of entity], NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of

³⁰ ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statements*, contains information on the wording of reports that may be helpful.

³¹ This conclusion is appropriate where a fair presentation framework has been used.

³² This conclusion is appropriate where a compliance framework has been used.

the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].

[Title of those charged with governance] Responsibility for the [period] Financial Statements

The [title of those charged with governance] of the [type of entity] are responsible, on behalf of the entity, for the preparation *[and fair presentation]* of the [period] financial statements in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation *[and fair presentation]* of the [period] financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

~~Our Auditor's Responsibility~~ ies for the Review of the Financial Statements

Our responsibility is to express a conclusion on the [period] financial statements based on our review. ~~We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared, in all material respects, in accordance with the [applicable financial reporting framework]. As the auditor of [name of entity], NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.~~

A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on those financial statements.

~~Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].~~

~~Basis for Qualified Conclusion~~

~~As a result of a fire in a branch office on [date] that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totalling \$ _____ included in the [period] financial statements. The [entity] is in the process of reconstructing these~~

Commented [MP60]: To match requirement wording previously in the standard.

~~records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the [period] financial statements.~~

Qualified Conclusion

~~Except for the adjustments to the [period] financial statements that we might have become aware of had it not been for the situation described above, based on our review nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] does not present fairly, in all material respects, [or “give a true and fair view of”³³] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].³⁴~~

~~or~~

~~Except for the adjustments to the [period] financial statements that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].³⁵~~

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the review resulting in this independent auditor’s review report is [name].

[Auditor’s signature³⁶]

[Date of the review report]³⁷

[Auditor’s address]

³³—ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statements*, contains information on the wording of reports that may be helpful.

³⁴—This conclusion is appropriate where a fair presentation framework has been used.

³⁵—This conclusion is appropriate where a compliance framework has been used.

³⁶ The review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

³⁷ The date of the review report is the date the auditor signs the report.

Example of a Review Report With an Adverse Conclusion For a Departure From the Applicable Financial Reporting Framework

INDEPENDENT [AUDITOR'S](#) REVIEW REPORT

To [Appropriate Addressee]

Report on the [appropriate title for the financial statements] Financial Statements

Adverse Conclusion

We have reviewed the accompanying [period] financial statements of [name of entity], which comprise statement of financial position as at [date], and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the [period] ended on that date, and summary of significant accounting policies and other explanatory information.

Our review indicates, because the [entity's] investment in subsidiary companies is not accounted for on a consolidation basis, as described in the previous paragraph, the [period] financial statements of [name of entity] do not present fairly, in all material respects, [or "give a true and fair view of"³⁸] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].³⁹

or

Our review indicates, because the [entity's] investment in subsidiary companies is not accounted for on a consolidation basis, as described in the previous paragraph, the [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].⁴⁰

Basis for Adverse Conclusion

Commencing this period, [title of those charged with governance] of the [entity] ceased to consolidate the financial statements of its subsidiary companies since [title of those charged with governance] considers consolidation to be inappropriate because of the existence of new substantial non-controlling interests. This is not in accordance with [applicable financial reporting framework]. Had consolidated financial statements been prepared, virtually every account in the financial statements would have been materially different.

We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *International Code of Ethics for Professional Accountants (including International Independence Standards) (New Zealand)*. As the auditor of [name of entity], NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].

³⁸ ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statements*, contains information on the wording of reports that may be helpful.

³⁹ This conclusion is appropriate where a fair presentation framework has been used.

⁴⁰ This conclusion is appropriate where a compliance framework has been used.

[Title of those charged with governance] Responsibility for the [period] Financial Statements

The [title of those charged with governance] of the [type of entity] are responsible, on behalf of the entity, for the preparation [and fair presentation] of the [period] financial statements in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation [and fair presentation] of the [period] financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

~~Our Auditor's Responsibilities for the Review of the Financial Statements~~

Our responsibility is to express a conclusion on the [period] financial statements based on our review. ~~We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the [applicable financial reporting framework]. As the auditor of [name of entity], NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.~~

A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on those financial statements.

~~Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].~~

~~Basis for Adverse Conclusion~~

~~Commencing this period, [title of those charged with governance] of the [entity] ceased to consolidate the financial statements of its subsidiary companies since [title of those charged with governance] considers consolidation to be inappropriate because of the existence of non-substantial non-controlling interests. This is not in accordance with [applicable financial~~

~~reporting framework]. Had consolidated financial statements been prepared, virtually every account in the financial statements would have been materially different.~~

~~Adverse Conclusion~~

~~Our review indicates, because the [entity's] investment in subsidiary companies is not accounted for on a consolidation basis, as described in the previous paragraph, the [period] financial statements of [name of entity] do not present fairly, in all material respects, [or "give a true and fair view of"⁴¹] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].⁴²~~

~~or~~

~~Our review indicates, because the [entity's] investment in subsidiary companies is not accounted for on a consolidation basis, as described in the previous paragraph, the [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].⁴³~~

Report on Other Legal and Regulatory Requirements

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

[The engagement partner on the review resulting in this independent auditor's review report is \[name\].](#)

[Auditor's signature⁴⁴]

[Date of the review report]⁴⁵

[Auditor's address]

⁴¹—ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statements*, contains information on the wording of reports that may be helpful.

⁴²—This conclusion is appropriate where a fair presentation framework has been used.

⁴³—This conclusion is appropriate where a compliance framework has been used.

⁴⁴ The review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

⁴⁵ The date of the review report is the date the auditor signs the report.

Example of a Review Report With a Qualified Conclusion (Except For) on the Basis That Comparatives Have Not Been Reviewed or Audited

INDEPENDENT [AUDITOR'S](#) REVIEW REPORT

[To](#) [Appropriate Addressee]

Report on the [appropriate title for the financial statements] Financial Statements

Qualified Conclusion

We have reviewed the accompanying [period] financial statements of [name of entity], which comprise the statement of financial position as at [date], and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the [period] ended on that date, and a summary of significant accounting policies and other explanatory information.

Except for the effect, if any, on the comparatives for the preceding corresponding [period] that may result from the qualification in the [Basis for Qualified Conclusion](#) section of our report, ~~the preceding paragraph~~, based on our review nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] do not present fairly, in all material respects, [or “give a true and fair view of”⁴⁶] the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework]⁴⁷.

or

Except for the effect, if any, on the comparatives for the preceding corresponding [period] that may result from the qualification [Basis for Qualified Conclusion](#) section of our report, ~~the preceding paragraph~~, based on our review, nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework]⁴⁸.

Basis for Qualified Conclusion

As this is the first year that [name of entity] is required to prepare [period] financial statements and have it reviewed, the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows—, and summary of significant accounting policies and other explanatory information for the preceding corresponding [period] have not been reviewed or audited. Accordingly, we are not in a position to and do not express any assurance in respect of the comparative information for the [period] ended [date of preceding corresponding period]. We have, however, audited the financial statements for the preceding financial year ended [date of preceding financial year] and therefore our review statement is not qualified in respect of the comparative information for the year ended [date of preceding financial year] included in the statement of financial position.

We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. [Our responsibilities are further](#)

⁴⁶ [ISA \(NZ\) 700 Forming an Opinion and Reporting on Financial Statements](#), contains information on the wording of reports that may be helpful.

⁴⁷ This conclusion is appropriate where a fair presentation framework has been used.

⁴⁸ This conclusion is appropriate where a compliance framework has been used.

Commented [MP61]: ?

described in the *Auditor's Responsibilities for the Review of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (New Zealand). As the auditor of [name of entity], NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].

[Title of those charged with governance] Responsibility for the [period] Financial Statements

The [title of those charged with governance] of the [type of entity] are responsible, on behalf of the entity, for the preparation *[and fair presentation]* of the [period] financial statements in accordance with the [applicable financial reporting framework] and for such internal control as the directors [those charged with governance] determine is necessary to enable the preparation *[and fair presentation]* of the [period] financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, [those charged with governance] are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless [those charged with governance] either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

~~Our Auditor's Responsibilities for the Review of the Financial Statements~~

Our responsibility is to express a conclusion on the [period] financial statements based on our review. ~~We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with the [applicable financial reporting framework]. As the auditor of [name of entity], NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.~~

A review of a [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The auditor makes enquiries about the appropriateness of the use of the going concern basis of accounting. If we conclude that a material uncertainty exists, we are required to draw attention in our review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the evidence obtained up to the date of our review report. However, future events or conditions may cause the entity to cease to continue as a going concern.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on those financial statements.

~~Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity].~~

~~Basis for Qualified Conclusion~~

~~As this is the first year that [name of entity] is required to prepare [period] financial statements and have it reviewed, the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, and summary of significant accounting policies and other explanatory information for the preceding corresponding [period] have not been reviewed or audited. Accordingly, we are not in a position to and do not express any assurance in respect of the comparative information for the [period] ended [date of preceding corresponding period]. We have, however, audited the financial statements for the preceding financial year ended [date of preceding financial year] and therefore our review statement is not qualified in respect of the comparative information for the year ended [date of preceding financial year] included in the statement of financial position.~~

~~Qualified Conclusion~~

~~Except for the effect, if any, on the comparatives for the preceding corresponding [period] that may result from the qualification in the preceding paragraph, based on our review nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] do not present fairly, in all material respects, [or “give a true and fair view of”]⁴⁹ the financial position of the [entity] as at [date], and of its financial performance and its cash flows for the [period] period ended on that date, in accordance with [applicable financial reporting framework].⁵⁰~~

~~or~~

~~Except for the effect, if any, on the comparatives for the preceding corresponding [period] that may result from the qualification in the preceding paragraph, based on our review nothing has come to our attention that causes us to believe that these [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].⁵¹~~

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the review resulting in this independent auditor's review report is [name].

[Auditor's signature⁵²]

[Date of the review report]⁵³

[Auditor's address]

⁴⁹—ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statements*, contains information on the wording of reports that may be helpful.

⁵⁰—This conclusion is appropriate where a fair presentation framework has been used.

⁵¹—This conclusion is appropriate where a compliance framework has been used.

⁵² The review report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.

⁵³ The date of the review report is the date the auditor signs the report.

Accompanying Attachment: Conformity to International and Australian Standards on Review Engagements

Commented [MP62]: To be updated.

This conformity statement accompanies but is not part of NZ SRE 2410.

Conformity with International Standards on Review Engagements and comparison to the Australian Auditing Standard on Review Engagements 2410

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC), has issued International Standard on Review Engagements (ISRE) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

ISRE 2410 has not been drafted in “clarity” format by the IAASB.

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Auditing Standard on Review Engagements (ASRE) 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*.

ASRE 2410 is in the “clarity” format. ASRE 2410 conforms with ISRE 2410.

This NZ SRE 2410 is based on ASRE 2410, but has been amended with the addition of requirements and application material.

This NZ SRE 2410 is effective for reviews of financial statements for periods ending on or after December 31, 2014. The effective date differs from the international and Australian standards’ effective dates.

The comparison that follows indicates the differences between this NZ SRE 2410 and both ISRE 2410 and ASRE 2410.

NZ SRE 2410 contains the following requirements that are not contained in ISRE 2410 or ASRE 2410:

- The auditor shall comply with the engagement quality control requirements of ISA (NZ) 220⁵⁴ when performing a review in accordance with this NZ SRE 2410. (Paragraph 10)
- The auditor shall endeavor to obtain written representations from those charged with governance that they have disclosed to the auditor all information relevant to the use of the going concern assumption in the financial statements. (paragraph 24(h))
- A statement as to the existence of any relationship (other than that of assurance practitioner) which the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity or any of its subsidiaries. (Paragraph 33(o)).

NZ SRE 2410 contains the following requirements that have been amended from ASRE 2410 and that are not contained in ISRE 2410:

Those charged with governance are responsible for the financial statements. It is therefore appropriate to agree the terms of the engagement and obtain written representation from those charged with governance. The following requirements have been amended from ASRE 2410 by removing or replacing references to management with references to those charged with governance:

⁵⁴ ISA (NZ) 220, Quality Control for an Audit of Financial Statements.

- The auditor shall, prior to agreeing the terms of the engagement, determine whether the financial reporting framework is acceptable and obtain agreement from those charged with governance, that they acknowledge and understand their responsibility:
 - for the preparation and fair presentation of the financial statements;
 - for such internal controls as management and those charged with governance, deem necessary to enable the preparation of the financial statements that are free from material misstatement; and
 - to provide the auditor with:
 - access to information relevant to the preparation of the financial statements;
 - additional information that the auditor may request for the purposes of the review engagement; and
 - unrestricted access to persons from whom the auditor determines it necessary to obtain evidence (Ref: Para. 12).
- The auditor shall agree the terms of the engagement with those charged with governance, which shall be recorded in writing by the auditor and forwarded to the entity. When the review engagement is undertaken pursuant to legislation, the minimum applicable terms are those contained in the legislation (Ref: Para. 13).
- If those charged with governance refuse to provide a written representation that the auditor considers necessary, this constitutes a limitation of the scope of the auditor's work and the auditor shall express a qualified conclusion or a disclaimer of conclusion, as appropriate (Ref: Para. 25).

NZ SRE 2410 and ASRE 2410 contain the following requirements that are not contained in ISRE 2410:

- The auditor shall consider materiality, using professional judgement, when:
 - determining the nature, timing and extent of review procedures; and
 - evaluating the effect of misstatements (Ref: Para. 16).
- When comparative information is included for the first time in the financial statements, an auditor shall perform similar procedures on the comparative information as applied to the current period financial statements (Ref: Para. 22).
- When, as a result of performing the review of the financial statements, a matter comes to the auditor's attention that causes the auditor to believe in the existence of fraud or non-compliance by the entity with laws and regulations, the auditor shall communicate the matter as soon as practicable to those charged with governance and shall consider the implications for the review (Ref: Para. 31).
- The auditor shall express a qualified or adverse conclusion when a matter has come to the auditor's attention that causes the auditor to believe a material adjustment should be made to the financial statements for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework. The auditor shall include a basis for modification paragraph in the report, that describes the nature of the departure and, if practicable, states the effects on the financial statements. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefor shall be included in the basis for modification paragraph. The

conclusion paragraph shall be headed “Qualified Conclusion” or “Adverse Conclusion”, whichever is relevant (Ref: Para. 34).

- Unless required by law or regulation, an auditor shall not accept an engagement to review the financial statements when management or those charged with governance has imposed a limitation on the scope of the review (Ref: Para. 37).
- If management and, where appropriate, those charged with governance, refuses the auditor’s request to remove a limitation that has been imposed on the scope of the review, but there is a legal or regulatory requirement for the auditor to issue a report, the auditor shall issue a disclaimer of conclusion or qualified conclusion report, as appropriate, containing the reason(s) why the review cannot be completed (Ref: Para. 39).
- This NZ SRE 2410 includes explanatory guidance not contained within ISRE 2410 on:
 - Materiality (Ref: Para.A14 to A18); and
 - Comparatives (Ref: Para.A28 to A31).

NZ SRE 2410 and ISRE 2410 contain the following requirements that are not contained in ASRE 2410:

- This NZ SRE 2410 is directed towards a review of financial statements by an entity’s auditor. This NZ SRE 2410 is to be applied, adapted as necessary, when an entity’s auditor undertakes an engagement to review historical financial information other than financial statements of an audit client. (Paragraph 4)
- The auditor shall issue a written report that contains the following:
 - (d) If the financial statements comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a statement that those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - (e) In other circumstances, a statement that those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - (j) If the financial statements comprises a complete set of general purpose financial statements prepared in accordance with a financial reporting framework designed to achieve fair presentation, a conclusion as to whether anything has come to the auditor’s attention that causes the auditor to believe that the financial statements do not present fairly, or if applicable, are not true and fair, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when New Zealand is not the origin of the financial reporting framework used).
 - (k) In other circumstances, a conclusion as to whether anything has come to the auditor’s attention that causes the auditor to believe that the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework (including a reference to the jurisdiction or country of origin of the financial reporting framework when New Zealand is not the origin of the financial reporting framework used). (Paragraph 33)

ASRE 2410 contains the following requirements that are not contained in ISRE 2410 or NZ SRE 2410:

The AUASB has decided that:

- due to the nature of reviews of other historical financial information, a separate Standard is more appropriate than ASRE 2410 being adapted by the auditor for this purpose; and
- ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, developed by the AUASB, deals with reviews of other historical financial information.

There is no equivalent to ASRE 2405 in New Zealand or internationally. NZ SRE 2410 is to be applied, adapted as necessary, when an entity's auditor undertakes an engagement to review historical financial information other than financial statements of an audit client.

- This Auditing Standard applies to:
 - (a) a review, by the independent auditor of the entity, of a financial report for a half-year in accordance with the *Corporations Act 2001*; and
 - (b) a review, by the independent auditor of the entity, of a financial report, or a complete set of financial statements, comprising historical financial information, for any other purpose (Ref: Para. 1(a) and (b)).
- Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall:
 - if possible, perform appropriate alternative procedures; and
 - document in the working papers:
 - the circumstances surrounding the inability to comply;
 - the reasons for the inability to comply; and
 - justification of how alternative procedures achieve the objectives of the requirement.

When the auditor is unable to perform appropriate alternative procedures, the auditor shall consider the implications for the review report.

Other amendments

New Zealand terminology has been adopted throughout the standard. NZ SRE 2410 has defined financial statements and applicable financial reporting framework consistently with the definitions in the International Standards on Auditing (New Zealand). These definitions are not included in ISRE 2410 and differ in the Australian ASRE 2410.

This NZ SRE 2410 provides illustrative examples that differ in form and content from those contained in ISRE 2410 and ASRE 2410, namely:

- An engagement letter (Appendix 1).
- A written representation letter (Appendix 1).
- Illustrative review reports (Appendices 3).

Amendments to Other Pronouncements

This appendix sets out amendments to other pronouncements issued by the XRB or the NZAuASB that are as a consequence of the issuance of ISRE (NZ) 2400. Amended paragraphs are shown with the new text underlined and deleted text struck through.

XRB Au1 Application of Auditing and Assurance Standards

In Appendix 3, Review Engagement Standards

~~RS 1~~ ~~Statement of Review Engagement Standards~~

NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity.



EXPOSURE DRAFT NZAuASB 2018-2

AMENDMENTS TO NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 2410 *REVIEW OF FINANCIAL STATEMENTS PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY*

(ED NZAuASB 2018-2)

Invitation to Comment

[Date]

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External Reporting Board
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Manners St Central, Wellington 6142
New Zealand
<http://www.xrb.govt.nz>

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Information for respondents

Invitation to comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. Responses to this Invitation to Comment will be considered by the NZAuASB which will then make final decisions about New Zealand Standard on Review Engagements 2410.

Respondents are encouraged to supplement their opinions by detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Respondents should feel free to provide comments only for those questions that are relevant to their perspective if they so wish.

Submissions should be sent to:

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

Email: submissions@xrb.govt.nz

(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submission is **2 February 2018**.

Publication of Submissions, the Official Information Act and the Privacy Act

¹ The NZAuASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting auditing and assurance standards.

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the ground under the Official Information Act 1982 for doing so (e.g., that it would be likely to unfairly prejudice the commercial position of the person providing the information).

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

NZAuASB	New Zealand Auditing and Assurance Standards Board
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
ITC	Invitation to Comment
AUASB	Australian Auditing and Assurance Standards Board
ISA	International Standard on Auditing
ISRE	International Standard on Review Engagements
PES	Professional and Ethical Standard

Summary of questions for respondents

1. Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?
2. More specifically, do you agree with the proposals to require the auditor to:
 - a. Move the review conclusion to the top of the interim review report?
 - b. Include the independence statement in the interim review report?
 - c. To include the engagement partners name?
 - d. To include a description of the responsibilities of those charged with governance and the auditor related to going concern?
 - e. **To refer to a "Material Uncertainty Related to Going Concern" rather than an Emphasis of Matter paragraph, when appropriate?**
3. Do you agree that it is not appropriate to include a section on Other Information in the interim review report? If you disagree, please explain why?
4. Do you agree that it is unnecessary to refer to a website when describing the **auditor's responsibilities given that this description is more condensed for a review?**
5. Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?
6. Do you agree with the proposed amendments to align with the new ethical framework when encountering non-compliance with laws and regulations, including a reference to guidance in ISA (NZ) 250 rather than including detailed requirements and application material within NZ SRE 2410?
7. Do you consider that there are any further amendments required to be made to NZ SRE 2410? If so, please expand on what changes and why such changes are considered necessary?
8. Do you agree with the proposed effective date? If not, please explain why not.

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment is to seek feedback on the proposed amendments to NZ SRE 2410.

1.2 Background

2. The XRB has delegated authority to the NZAuASB to issue auditing and assurance standards to govern the professional conduct of assurance practitioners. In doing so, the XRB requires the NZAuASB to adopt international auditing and assurance standards, unless there is a compelling reason not to do so. A second key strategic objective of the XRB is harmonisation with Australia.
3. The IAASB has issued ISRE 2410 but has not amended it since 2006 (i.e. it is not in the clarified format). It was for this reason that the NZAuASB agreed to issue a domestic standard to address interim reviews conducted by the auditor of the entity. The NZAuASB based NZ SRE 2410 on an equivalent Australian standard, which is in the clarified format, rather than the older version issued by the IAASB. Further explanations for the decision to issue a domestic standard are outlined in the Explanations for Decisions made by the NZAuASB in Finalising NZ SRE 2410.
4. Given that the IAASB has not prioritised the maintenance of the international standard, the NZAuASB and the AUASB have agreed to work together to maintain the domestic standard that deals with a review engagement performed by the auditor.

1.3 Reasons for issuing this Exposure Draft

5. **From December 2016, the auditor's report was changed as a result of the IAASB's project to enhance the auditor's report from the user's perspective.** These changes were limited to the ISAs.
6. Subsequently, questions have arisen, both in New Zealand and Australia, as to whether and how the new auditor reporting requirements impact the format and content of the interim review report in accordance with NZ SRE 2410, or the Australian equivalent.
7. Currently, while NZ SRE 2410 has not been updated, auditors can, but are not required to, use the new reporting format and new features when issuing a review report provided any reporting is not inconsistent with NZ SRE 2410. There was a view expressed by the Board that it would be preferable to promote consistency in practice. Based on indicative and early feedback from informal discussions with targeted stakeholders the NZAuASB agreed to develop an exposure draft to incorporate these updates into NZ SRE 2410 to promote consistency in reporting.

8. In addition, the NZAuASB identified a need to include conforming amendments as a result of the new ethical framework related to non-compliance with laws and regulations (NOCLAR).
9. The NZAuASB is not proposing to reopen or fundamentally revise NZ SRE 2410, rather to make conforming amendments to the standard as a result of recent changes to the ISAs (NZ) and PES 1 (Revised).

1.4 Timeline and next steps

10. Submissions on ED 2018-2 are due by **2 February 2019**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
11. The NZAuASB will consider the submissions received immediately after the consultation period ends. Subject to the content of feedback, the NZAuASB hopes to finalise any amendments to NZ SRE 2410 in the first half of 2019.

2. Overview of ED NZ 2018-2

2.1 Key Differences Between the Exposure Draft and Extant NZ SRE 2410

2.1.1 Reporting Requirements

12. **Key changes made to the auditor's report include, but were not limited to, the reporting of key audit matters (KAMs).** Other changes made included:
 - Re-ordering the report so that the opinion comes first, followed by a **"Basis for Opinion"** section;
 - Naming the engagement partner in the interim review report;
 - An **affirmative statement about the auditor's** independence and fulfilment of relevant ethical requirements;
 - A description of the respective responsibilities of those charged with governance and the auditor for going concern;
 - Referring to a material uncertainty related to going concern as an **"emphasis of matter"** or under the heading **"Material uncertainty related to going concern"**;
 - An **"Other Information"** section to clarify that the auditor's opinion does not cover the other information included in an annual report;
 - An **enhanced and expanded auditor's responsibility section** describing the key features of an audit. There is also an option to refer to the XRB website instead of repeating these responsibilities in all reports;

A key reason for making these changes to the auditor's report was to enhance the value of the auditor's report to better meet user needs.

13. The exposure draft is proposing to include the enhanced features that are deemed relevant for an interim review report, into NZ SRE 2410. However, not all of the revised auditor reporting requirements have been determined to be appropriate for a review engagement.

Interim Review Reporting requirements to align with the auditor's report

14. The NZAuASB is proposing to include the following requirements in NZ SRE 2410:
- Re-ordering the report so that the conclusion comes first, followed by a **"Basis for Conclusion" section**;
 - Naming the engagement partner in the interim review report;
 - An **affirmative statement about the auditor's** independence and fulfilment of relevant ethical requirements;
 - A description of the respective responsibilities of those charged with governance and the auditor for going concern;
 - Referring to a material uncertainty related to going concern as an **"emphasis of matter" or under the heading "Material uncertainty related to going concern"**;
15. The NZAuASB has heard favourable feedback from users, that including the **Opinion first is an improvement to the auditor's report. Given that this is also** the most useful information to the user of the interim review report, it would enhance the value of, and consistency of the user experience, if the review conclusion (and the structure of the report) followed the same basic order. For this reason, the ED proposes to mandate the order of the review report, **so that the conclusion comes first, followed by the "Basis for Conclusion"**.
16. In Australia, it is required by law for the engagement partner to include their **name on both the auditor's report and the interim review report (this was** required before the auditor reporting changes), i.e. it is consistent practice **for the engagement partner's name to appear in** both the year end and interim review reports. This is not required in New Zealand.
17. Naming the engagement partner was identified as useful for the user. Reporting the engagement partner name at year end, but not including the name at the interim period may be misleading. If the engagement partner has changed since the year end audit, it could mislead the user to believe that the same engagement partner has performed the interim review. As noted above this is inconsistent with practice in Australia. For this reason, the ED proposes to require the name of the engagement partner to be included in the interim review report. This is common practice in the public sector in New Zealand.
18. The auditor is subject to the same independence and ethical requirements when performing the interim review. Independence is most likely just as

important to the user at the interim review stage. The ED therefore proposes to make this explicit statement in the review report.

19. The requirements in NZ IAS 1² related to making an assessment of the ability of an entity to continue as a going concern apply when preparing interim financial statements. Similarly, the auditor is required by extant NZ SRE 2410³ to make enquiries as to whether those charged with governance have changed **their assessment of the entity's ability to continue as a going concern**. Highlighting these responsibilities in a similar way in the interim report, will promote consistency and for this reason the ED proposes to require these descriptions in an interim review report.
20. Changes to ISA (NZ) 570 (Revised)⁴ require a new heading to be used when the auditor concludes that there is a material uncertainty and adequate disclosures have been made about a material uncertainty in the financial statements. Historically **this has been reported under the heading "Emphasis of Matter"**. NZ SRE 2410⁵ refers to an emphasis of matter paragraph in these circumstances. The NZAuASB considered that there is a need to promote consistency in this reporting. Not to do so may result in inadvertent non-compliance with extant NZ SRE 2410.
21. The NZAuASB has not identified that any of these proposals will be overly onerous to apply in the New Zealand context.
22. The NZAuASB is not proposing to incorporate the following features:
 - Reporting of key audit matters or key review matters;
 - An **"Other Information"** section to clarify that the auditor's opinion does not cover the other information included in an annual report;
 - An **enhanced and expanded auditor's responsibility section** describing the key features of an review. There is also an option to refer to the XRB website instead of repeating these responsibilities in all reports.
23. The reporting of key audit matters at the interim audit stage was not considered to be appropriate in the context of the work that is performed in a review engagement.
24. **The description of the auditor's responsibilities when performing the review is more condensed than for an audit**, given that the procedures performed are

Commented [MP1]: We seek confirmation as to whether or not this is appropriate (or useful) in an interim report? And rationale to support why or why not.

² NZ IAS 1, *Presentation of Financial Statements*, paragraph 4 and 25

³ NZ SRE 2410, paragraph 20

⁴ ISA (NZ) 570 (Revised), *Going Concern*, paragraph 22

⁵ NZ SRE 2410, paragraph 41

substantially less than for a review. Given the condensed nature of the description, it is not necessary to provide the option to refer to a website.

Question for respondents

1. Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?
2. More specifically, do you agree with the proposals to require the auditor to:
 - a. Move the review conclusion to the top of the interim review report?
 - b. Include the independence statement in the interim review report?
 - c. To include the engagement partners name?
 - d. To include a description of the responsibilities of those charged with governance and the auditor related to going concern?
 - e. **To refer to a "Material Uncertainty Related to Going Concern" rather than an Emphasis of Matter paragraph, when appropriate?**
3. Do you agree that it is not appropriate to include a section on Other Information in the interim review report? If you disagree, please explain why?
4. Do you agree that it is unnecessary to refer to a website when describing the **auditor's responsibilities given that this description is more condensed for a review?**
5. Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?

2.1.2 Non-Compliance with Laws and Regulations (NOCLAR)

25. Amendments to PES 1 (Revised) *Non-compliance with Laws and Regulations* was issued in August 2016 to align with changes made by IESBA to the *Code of Ethics for Professional Accountants*. The IAASB revised ISA 250⁶ and issued conforming amendments to a number of other pronouncements, including ISRE 2400 (Revised)⁷. However, no changes were made to ISRE 2410. The amendments made by the IAASB, responded to new requirements **in the IESBA Code of Ethics to enable the IAASB's standards to be effectively applied alongside the IESBA Code.**

⁶ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁷ ISRE 2400 (Revised)

26. This ED is proposing to make limited amendments to NZ SRE 2410 to align with the new terminology of identified and suspected NOCLAR, and amend the communication requirements to prompt the auditor to think about whether to report identified or suspected NOCLAR to an appropriate authority outside the entity, taking into consideration the provisions of laws, regulations or relevant ethical requirements. Limited changes are proposed to the application material, which refers the auditor to the ISA (NZ) 250 (Revised).

Question for respondents

6. Do you agree with the proposed amendments to align with the new ethical framework when encountering non-compliance with laws and regulations, including a reference to guidance in ISA (NZ) 250 rather than including detailed requirements and application material within NZ SRE 2410?

2.1.3 Other changes

27. The extent of the proposed amendments are limited in nature, restricted to changes to the auditor reporting requirements and conforming amendments to NOCLAR.
28. Minor changes are proposed to revise the title of the standards, to reflect changes to the restructured Code and other recent developments in the ISAs.

Question for respondents

7. Do you consider that there are any further amendments required to be made to NZ SRE 2410? If so, please expand on what changes and why such changes are considered necessary?

2.2 Effective Date

29. The NZAuASB proposes that the effective date of the proposals should be effective for reviews of financial statements for periods beginning on or after 30 June 2019. The NZAuASB does not consider that a lengthy transition period is required, given that the extent of change is limited in nature.

Question for respondents

8. Do you agree with the proposed effective date? If not, please explain why not.



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 12 October 2018

TO: Members of the New Zealand Auditing and Assurance Standards Board

FROM: Peyman Momenan

SUBJECT: International Update

Introduction

1. This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the Board's information, for September and October 2018.

International Federation of Accountants (IFAC)

1. According to [IFAC survey](#), Generation Z (those aged 18 to 23 years old) favours economic conservatism in public policy and seeks career stability. Gen Z is concerned for the economy and their job prospects, according to a new survey published today by IFAC (International Federation of Accountants), the voice of the global accounting profession. The survey of over 3,300 individuals aged 18-23 across 19 G20 countries takes the pulse of next-generation attitudes on public policy and career expectations.
2. Effective governance is the outcome of a mosaic of organizational policies, processes, and cross-functional interactions, according to experts featured in a new report from The Institute of Internal Auditors (IIA) and IFAC (the International Federation of Accountants). "[United, Connected and Aligned – How the Distinct Roles of Internal Audit and the Finance Function Drive Good Governance](#)," takes the pulse of 11 governance experts and thought leaders to examine the crucial roles both internal audit and the finance function play in maintaining a sound system of corporate governance.

International Auditing and Assurance Standards Board (IAASB)

1. IAASB Ongoing projects (refer to appendix 1)
2. The IAASB discussed a project proposal to undertake work to develop a Discussion Paper to obtain stakeholder views on matters related to issues and challenges when auditing non-complex entities, as well as presenting possible actions for the IAASB to address these issues and challenges. The Board strongly supported work in this area, in particular to further understand the issues and challenges that have been identified and develop appropriate responses to address them. It is expected that the Discussion Paper will be presented for discussion by the IAASB at its March 2019 meeting.

International Ethics Standards Board for Accountants (IESBA)

1. There have been no significant developments related to audit and assurance to report in the period.

Accountancy Europe (AE) (former FEE)

1. AE [survey](#) provides insights on auditor's reporting on KAMs for more than 60 European banks. It aims to facilitate communication between banks, auditors and stakeholders on this important new requirement.

Public Interest Oversight Board of IFAC (PIOB)

1. PIOB published its [newsletter](#) for October 2018.

International Integrated Reporting Council (IIRC)

1. There have been no significant developments related to audit and assurance to report in the period.

Global Reporting Initiative (GRI)

1. The World Federation of Exchanges published a revised sustainability reporting guidance for their member exchanges in October 2018. The WFE ESG Guidance and Metrics is fully aligned with the [GRI Sustainability Reporting Standards](#), and the guidelines have now been mapped against the standards in an easy-to-use [linkage document](#).

International Forum of Independent Audit Regulators (IFIAR)

1. There have been no significant developments related to audit and assurance to report in the period.

International Organization of Supreme Audit Institutions (INTOSAI)

1. From 19th to 22nd September 2018 the State Audit Office of Vietnam (SAV) hosted the 14th ASOSAI Assembly and the 7th ASOSAI Symposium on "Environmental Audit for Sustainable Development" in Hanoi, Vietnam. The [Hanoi-Declaration](#), the main outcome of the 14th ASOSAI Assembly emphasizes the importance of ASOSAI's interest, efforts and contributions towards the aim of achieving SDGs as well as global environmental challenges discussed at the 7th ASOSAI Symposium.

International Organization of Securities Commissions (IOSCO)

1. Conflicts of interest and associated conduct risks stemming from the role of intermediaries can harm the integrity and efficiency of the equity capital raising process, damage investor confidence and weaken capital markets as an effective vehicle for issuers to raise funding. To help regulators identify and address these risks, IOSCO published the final report on [Conflicts of interest and associated conduct risks during the equity capital raising process](#), which sets out guidance for regulators to address conflicts of interests that may occur when intermediaries manage an equity securities offering..

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. Highlights from the June 2018 AUASB meeting include:
 - The AUASB was presented with a fatal flaw version of the Audit Committee Chair Survey Report which has been prepared jointly with the Financial Reporting Council (FRC). AUASB Members were pleased to see the positive results about perceptions of audit quality in the survey. They provided suggestions to clarify some of the wording in the report and how some of the key messages have been presented in the executive summary.

- The AUASB received an update from the AUASB Technical Group (ATG) in relation to a strategic project analysing ASIC's most recent audit inspection findings in conjunction with observations provided on this topic by representatives of largest audit firms. The AUASB discussed opportunities to address matters identified under the AUASB's current mandate and support the next steps proposed in the paper. Further work on this project will be presented at the next AUASB meeting.
- The AUASB discussed the current exposure draft (ED) for ISA 315 and the matters which potentially will be included in the AUASB submission to the IAASB on the proposed standard, as well as the questions and issues the ATG and stakeholders should focus on at upcoming public roundtables the AUASB is hosting on the ED. These roundtables are being held over the next few weeks in Perth, Hobart, Canberra, Brisbane, Sydney and Melbourne.
- The ATG provided a summary of the ED for a revised International Agreed-Upon-Procedures (AUP) standard due to be presented at the upcoming IAASB September 2018 meeting. The AUASB discussed and agreed some concerns in the ED around the exercise of professional judgement and the restriction on use/distribution of an AUP Report.
- Other items on the IAASB September 2018 agenda were also reviewed, including the latest EDs for the IAASB's Quality Control Standards (ISQC 1, ISQC 2 and ISA 220) and an update on the IAASB's project developing guidance for EER Assurance engagements. The AUASB were also briefed about a new proposal the IAASB has developed on the audit of Less Complex Entities.
- The ATG presented to the AUASB proposed revisions to the AUASB Glossary, including a number of alternative presentation methods for consideration to address the large number of terms used in AUASB standards which have multiple definitions. The AUASB discussed how the Glossary is used by stakeholders and determined that each different definition should be separately identified in the AUASB Glossary with a link to the full name of the standard and relevant paragraph number. The AUASB approved the Glossary for issuance subject to these amendments being made and final approval by the Chair.
- AUASB Members were presented with a status update of annual performance against the approved final version of the 2017-18 AUASB Technical Work Program, which will be used as the basis for the AUASB 2017-18 Annual Performance Statement to be included in the 2017-18 AASB-AUASB Annual Report. The ATG then presented a draft of the 2018-19 AUASB Technical Work Program for AUASB members' review and consideration, which, subject to feedback from AUASB members, will be finalized and approved by the AUASB Chair out of session, then posted on the AUASB Website.

United Kingdom

FRC

1. The Financial Reporting Council (FRC) announced in October 2018 a strategic programme of work to ensure audit better serves the public interest. This programme encompasses work on auditor independence, audit quality, the future needs of investors and corporate viability.

[Developments in Audit](#) is a "state of the nation" review for audit in the UK. It highlights key themes and issues and provides a robust evidence base to allow for an informed debate about the future of audit

2. Following the Competition and Markets Authority's launch of its [review of the audit sector](#), an FRC spokesperson said:

"We have expressed concern about concentration at the top of the audit market so we welcome this announcement.

"We will work closely with the Competition and Markets Authority as they carry out this study. It is essential that there is widespread confidence in the quality of company audit in the United Kingdom".

Institute of Chartered Accountants in England and Wales

1. More than half of people aged 21–30 have no pension or make minimum contributions. Despite this, investment managers are not successfully encouraging people to save. In [this Audit insights report](#), external auditors and ICAEW specialist staff explore whether the investment management industry is fit for purpose and use their expert knowledge to identify what changes need to be made.

The Charity Commission

1. The Charity Commission published the result of its [Accounts monitoring review: assessing the standard of charity financial information](#) in October 2018. The results shows that smaller charities are more likely to not meet the minimum standards for their financial reports.
2. The Charity Commission published the [results of its latest monitoring reviews of charity trustees' annual reports and accounts](#) in September 2018. The findings reveal a modest improvement in the quality of public reporting, but the regulator says that too many charities are still falling short in this area.

Association of Chartered Certified Accountants (ACCA)

1. There have been no significant developments related to audit and assurance to report in the period.

United States of America

Public Company Accounting Oversight Board (PCAOB)

1. The Public Company Accounting Oversight Board [issued a report on its inspections in 2017 of auditors of brokers and dealers](#)  in August 2018 that shows a continued high number of audit deficiencies overall, and fewer independence violations than in previous years. The PCAOB also [issued Executive Highlights](#)  of the report.

American Institute of Certified Public Accountants (AICPA)

1. Aaron Beam, the former CFO at HealthSouth, [discusses his tenure at the company and offers advice for professionals about fraud](#). In 2002 HealthSouth was accused by the U.S. Securities and Exchange Commission (SEC) of an accounting scandal where the company's earnings were falsely inflated by \$1.4 billion.
2. AI has been making its way into the accounting world. Finance departments, for example, have found ways to automate what was once laborious data entry using the technology. Among the activities automated are vendor bill data entry, general ledger coding, and expense reporting, to name just a few.

While these changes are helping to increase efficiency, they're just the beginning of the innovations headed our way. To help you prepare for those, [this article](#) looks at two subsets of AI, machine learning (ML) and deep learning, that could have a huge impact on the way accounting professionals do their jobs.

Center for Audit Quality (CAQ) - (affiliated with AICPA)

1. Eighty-one percent of American investors say they have confidence that public company auditors are effective in their investor protection roles, according to the Center for Audit Quality's [2018 Main Street Investor Survey](#). The annual survey polls investors with at least \$10,000 invested in the capital markets through retirement plans or direct holdings.

Canada

Canadian Auditing and Assurance Standards Board (CAASB)

1. The AASB decided to amend CAS 700, *Forming an Opinion and Reporting on Financial Statements*. Auditors will be required to communicate key audit matters in the auditor's report for audits of complete sets of general purpose financial statements of entities listed on the Toronto Stock Exchange (TSX), other than entities that are required to comply with National Instrument 81-106, *Investment Fund Continuous Disclosure*. Such requirements would be effective for periods ending on or after December 15, 2020. The Board will approve the amendments at its next meeting.
2. The AASB provided input to the CPA Canada nominee on the International Auditing and Assurance Standards Board (IAASB) on issues related to the IAASB's project to:
 - revise International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*, including the:
 - scalability of requirements and application material;
 - interrelationship of components within the system of quality management; and
 - concept of public interest, professional skepticism and professional judgment; and
 - develop a new standard, ISQC 2, *Engagement Quality Review*, including:
 - the objective of the standard; and
 - whether engagement quality reviews should be required for entities with significant public interest.

The IAASB is expected to approve exposure drafts of ISQC 1, ISQC 2 and ISA 220 in December 2018. The AASB would approve Canadian exposure drafts shortly thereafter.

3. The AASB provided input to the CPA Canada nominee on the IAASB's project to revise International Standard on Related Services (ISRS) 4400 (Revised), *Agreed-Upon Procedures Engagements*, including:
 - the role of professional judgment in an agreed-upon procedures engagement;
 - objectivity and independence of a practitioner performing an agreed-upon procedures engagement;
 - the use of the work of a practitioner's expert in an agreed-upon procedures engagement; and
 - matters related to the explanatory memo, exposure period and effective date of the standard.

The IAASB is expected to approve an exposure draft of ISRS 4400 (Revised) at its September 2018 meeting. The AASB would approve a Canadian exposure draft shortly thereafter.

4. The AASB discussed issues related to its project to revise Canadian Standard on Assurance Engagements (CSAE) 3416, *Reporting on Controls at a Service Organization*, and the exposure draft highlights memorandum. Issues discussed included:

- the consistency between revised CSAE 3416 and other subject-matter-specific standards; and
- areas where proposed CSAE 3416 requirements differ from those in the American Institute of Certified Public Accountants equivalent standard, AT-C Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*.

The AASB expects to approve an exposure draft at its October 2018 meeting.

5. The AASB discussed results from a roundtable discussion and shared its views with the Chair of the Accounting Standards Board (AcSB) on the AcSB's "Draft Framework for Reporting Performance Measures." Issues discussed included:

- current and perceived demand for these engagements;
- possible scope options for an assurance engagement; and
- the Framework's effect on stakeholders' expectations of assurance

In addition, the AASB discussed next steps in addressing the challenges of providing assurance on performance measures.

CPA Canada

1. There have been no significant developments related to audit and assurance to report in the period.

Project	Overview of the project and its current status
<p>Quality Control has update for the period</p>	<p>Objective of the Project: Initial activities in scoping the project will focus on whether there is a need to revisit specific aspects of the quality control standards to enhance clarity and consistency of their application. This may include restructuring ISQC 1, additional requirements or guidance within the standard or additional guidance in support of the standard. Specific aspects within ISQC 1 and ISA 220 being explored include, governance, engagement partner responsibilities, engagement quality control reviews, monitoring, remediation, alternative audit delivery models and specific issues pertaining to small- and medium-sized practices</p> <p>Background and current status: The proposed changes to QC were included in the IAASB Audit Quality ITC. The ITC response period is closed now. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, and developed project proposals for quality control that were presented at the September 2016 IAASB meeting.</p> <p>The IAASB considered the Quality Control Other Working Group's (QCOWG) proposals in respect of:</p> <ul style="list-style-type: none"> • Setting the objective of an engagement quality control (EQC) Revising the definition of an EQC review; • Determining the scope of the engagements subject to an EQC review; and • The execution of an EQC review. <p>At its March 2017 meeting, the IAASB discussed matters to do with the eligibility of the engagement quality control reviewer.</p> <p>QC-Firm Level</p> <p>In June 2017 the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC 1, a result of incorporating a quality management approach (QMA) into ISQC 1, that included a discussion of a working draft of ISQC 1 (Revised) and how the proposals are expected to change firm behaviors. The Board was supportive of the overall direction proposed by the QCTF and emphasized the importance of outreach with a variety of stakeholders to seek input on the practicality of the proposals. The Board also encouraged the QCTF to develop guidance and examples to accompany the revised standard in order to explain the implementation and application of the standard.</p> <p>In its September 2017, the Board discussed the Quality Control Task Force's (QCTF) recommendations on the possible revisions to ISQC1 in relation to documentation of the system of quality management. The Board was supportive of the QCTF's proposals and suggested various refinements. Some of the key proposals were as follow:</p> <ul style="list-style-type: none"> • the proposal to retain the requirement for an EQC review for all audits of financial statements of listed entities, i.e., not only for general purpose financial statements

	<ul style="list-style-type: none"> • the proposals in relation to other engagements for which the firm determines that an EQC review is required (see here for details) • the objective of ISQC 2, including whether it is appropriate to locate the responsibilities of the EQC reviewer in ISQC 2, instead of ISA 220 • the IAASB supports the proposal to remove the reference to “team” from the definition of an EQC reviewer, and instead explain the use of a team in the application material supporting the appointment of the EQC reviewer • the proposed requirements and application material in relation to the eligibility of the EQC reviewer. <p>The Board also discussed the QCTF’s recommendations in relation to EQC reviews that would be incorporated in ISQC 1 and the proposed new standard, ISQC2. The Board confirmed that the purpose of the EQC review is to evaluate the significant judgments made by the engagement team. In addition to various recommendations to further enhance and clarify the various requirements and application material, the Board encouraged the QCTF to improve the robustness of the requirement relating to the scope of the engagements subject to EQC review.</p> <p>Quality Control – Engagement Level</p> <p>In December 2017, The IAASB supported the direction of the proposed changes to ISA 220.4 In particular, the Board supported the proposed changes that emphasize that the engagement partner is responsible and accountable for audit quality. The Board encouraged the ISA 220 Task Force to consider, as it progresses revisions to ISA 220, how the proposed changes will strengthen the performance of quality audits.</p> <p>Update for the period</p> <p>The Board discussed a draft ED of proposed ISA 220 (Revised)² and was supportive of the proposed changes. The discussions focused on whether changes were needed to the objective of the standard and the wording of the requirement regarding the engagement partner being “sufficiently and appropriately involved.” The Task Force plans on presenting the ED of proposed ISA 220 (Revised) for approval by the Board at the December 2018 meeting.</p> <p>Quality Control – Firm Level</p> <p>In December 2017, the Board discussed a first read of the proposed exposure draft of ISQC 1 (Revised) 5 and was broadly supportive of the direction of the standard. The Board focused on the scalability of the standard, clarifying the interrelationship of the components, and the appropriate placement of the governance and leadership component. As well as requesting the Task Force to clarify the meaning of deficiencies and major deficiencies, the Board asked that a framework be developed for assessing deficiencies in the system of quality management and requested clarification of how such deficiencies may impact the achievement of the overall objective of the standard. The Board also asked the Task Force to reconsider the threshold for the identification of quality risks and encouraged the Task Force to explore the development of appropriate guidance to accompany the</p>
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	<p>proposed exposure draft that addresses the application of the standard to a spectrum of firms.</p> <p>Update for the period:</p> <p>The Board discussed the exposure draft (ED) of proposed ISQC 1 (Revised)¹ and was supportive of the direction that the Quality Control Task Force was taking the standard, noting the improvement in the readability and understandability overall. The Board encouraged the Quality Control Task Force to consider whether there are further opportunities to address scalability, including further refinement and simplification of the standard, where possible. The Board also discussed changing the title of the standard (to International Standard on Quality Management 1); how the public interest, professional judgment, and professional skepticism are addressed in the standard; the responsibilities of a firm that belongs to a network; and communication with external parties. The Quality Control Task Force plans on presenting the ED of the revised standard for approval by the Board at the December 2018 meeting</p>
<p>Group Audits– ISA 600</p> <p>No Update for the period</p>	<p>Objective of the project: Determining the nature of the IAASB’s response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB’s Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p>Background and current status: The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>In its June 2017 meeting, the IAASB received an update on the activities of the GATF. The IAASB supported the proposal of the GATF to engage more directly with the QCTF, ISA 220 TF and ISA 315 (Revised)³ TF, to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600.⁴ The IAASB also supported the proposal of the GATF to publish a short project update and asked the GATF to consider topics that are related to standards not under revision, for example, materiality and audit evidence.</p> <p>In December 2017, the Board received a presentation about the interconnections between ISA 600 and other ongoing projects, and how the</p>

	Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.
Professional Scepticism Has update for the period	<p>Objective of the project: To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p>Background and current status: The IAASB commenced its initial information gathering on the topic of professional scepticism in June 2015. The issues identified and discussed at the IAASB meetings are part of the Invitation to Comment on Enhancing Audit Quality in the Public Interest which was issued in December 2015 and is open for comments till May 16, 2016.</p> <p>The working group is comprised of representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) to explore the topic of professional scepticism, enabling the three independent standard-setting Boards to consider what actions may be appropriate within their collective Standards and other potential outputs to enhance professional scepticism.</p> <p>Together with the Quality Control and ISA 600-Group Audits project, this project is part of the Audit Quality Enhancements Coordination Group (AQECG). The AQECG intends to coordinate the various inputs to the invitation to comment developed at the individual working group level, and take a holistic approach as to how the matters are presented in one invitation to comment. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>Subsequent to the December 2016 IAASB meeting, the joint PSWG held a teleconference to discuss matters related to potential changes to the concept/definition of professional scepticism in the ISAs. The March meeting papers are available here.</p> <p>In June 2017 meeting, the IAASB received an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup since the last Board meeting in March 2017. The Board supported the release of a communication to update stakeholders about the actions and current status of the PSWG's work. The Board also discussed the concept of "levels" of professional skepticism and supported the recommendations of the Professional Skepticism IAASB Subgroup not to introduce the concept into the ISAs.</p> <p>The IAASB discussed the Professional Skepticism Subgroup's analysis and related conclusions regarding different "mindset" concepts of professional skepticism and the use of the words in the ISAs in its December 2017. The Board supported the conclusions of the Subgroup, including that the current concept of the attitude of professional skepticism involving a "questioning mind" continues to be appropriate and should be retained within the ISAs. The IAASB Professional Skepticism Subgroup will liaise as needed with the Professional Skepticism Joint Working Group.</p>

	<p>Update for the period:</p> <p>In September 2018 meeting, The Board received an update on the activities of the IAASB's Professional Skepticism Subgroup (Subgroup) since March 2018. The Chair of the Subgroup also presented the Board with a draft publication that seeks to highlight the IAASB's efforts to appropriately reflect professional scepticism into the IAASB standards as well as other relevant news and information on professional skepticism, including collaboration with the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB). The Board supported the issuance of the publication and future publications of this nature.</p>
<p>Accounting Estimates (ISA 540) and Special Audit Considerations Relevant to Financial Institutions (No Update for the period)</p>	<p>Objective of the project: The objective of the financial institutions project is to:</p> <ul style="list-style-type: none"> A. Clarify and enhance the relationship between the banking supervisors and the bank's external auditors; B. Consider and address issues of particular significance in audits of financial institutions; and C. Consider as to whether the issues relating to ISA 540 that have been highlighted as particularly relevant to audits of banks and other financial institutions are more broadly applicable to other entities <p>Background and current status: The ISA Implementation Monitoring project, specific requests from banking and insurance regulators and outreach activities by the ISA 540 Working Group, have identified issues with respect to auditing accounting estimates, in particular in relation to audits of financial institutions. Also, inspection finding reports from audit regulatory bodies highlighted consistent issues with respect to the audit of accounting estimates, including in relation to audits of financial institutions. There are areas where there have been calls for clear er or additional requirements or guidance to enable auditors to appropriately deal with increasingly complex accounting estimates and related disclosures, including obtaining sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements as a whole.</p> <p>A draft exposure draft of revised ISA 540 has been developed and is to be deliberated by IAASB with an approved ED expected to be issued for comment in December 2016. The board reviewed the draft in its June 2016 meeting.</p> <p>IAASB expects to complete its deliberation of responses to the exposure draft and resulting proposed changes to ISA 540 (Revised) in 2017 with the revised standard expected to be issued in last quarter of 2017.</p> <p>The IAASB has released the ED ISA 540 for comment in May 2017.</p> <p>The Board received an overview of the comment letters received on proposed ISA 540 (Revised) in its September 2017 meeting. The Board discussed respondents' concerns about the complexity of the proposed ISA and potential difficulties in understanding and applying it in practice, and asked the ISA 540 Task Force to look at ways to restructure the proposed ISA to improve its clarity and readability. The Board also discussed the scalability of the ISA, how risk factors could be taken into account, and how best to structure the response to the assessed risks of material misstatement. The Board highlighted the importance of achieving the right balance between issuing a high-quality</p>

	<p>standard and the public interest in finalizing the ISA in a timely fashion. The IAASB is holding an additional meeting in October to progress proposed ISA 540 (Revised).</p> <p>The IAASB discussed key issues raised by respondents in relation to the Exposure Draft of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures', including the scalability of the ISA, the use of the term "reasonable," the exercise of professional skepticism and the Task Force's approach to the application material. The IAASB also discussed the Task Force's revisions to requirements and application material based on comments received on the Exposure Draft. The IAASB asked the Task Force to focus on redrafting the application material according to the planned approach with a view to conducting a first read of ISA 540 (Revised)¹ in March 2018, ahead of a targeted approval in June 2018.</p> <p>The ISA (540) was approved in IAASB's June 2018 meeting.</p>
<p>Data Analytics</p> <p>No Update for the period</p>	<p>Objective of the project: The objective of the Data Analytics Working Group (WG) is to:</p> <ul style="list-style-type: none"> A) Explore emerging developments in audit data analytics; and B) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe. <p>Background and current status: Information gathering on data analytics began in April 2015 and the Data Analytics Working Group will continue with its planned outreach activities in future. The DWAG published its first publication "The IAASB's Work to Explore the Growing Use of Technology in the Audit" in June 2016.</p> <p>At the March meeting, the IAASB received a video presentation of a panel discussion among members of the DAWG that was presented at the International Forum of Independent Audit Regulators Inspections Workshop.</p> <p>The Chair of the DAWG provides an update on the project in February 2017 on the IFAC website.</p> <p>In its June 2017 meeting, the IAASB received a presentation of high-level observations from respondents to the IAASB's Request for Input: Exploring the Growing Use of Technology in the Audit, with a Focus on Data Analytics. It was noted that respondents supported the IAASB in undertaking this work and encouraged continued active participation of the Data Analytics Working Group in other current standard-setting projects of the IAASB underway.</p>
<p>Emerging External Reporting (has update for the period)</p>	<p>Objective of the project: The objective of the Integrated Reporting Working Group (IRWG) is to:</p> <ul style="list-style-type: none"> A) Explore emerging developments in integrated reporting and other emerging developments in external reporting; B) Gather further information on the demand for assurance, the scope of the assurance engagement and the key assurance issues; and

	<p>C) Explore how the IAASB most effectively can respond via International Standards or non-authoritative guidance (including Staff publications) and in what timeframe.</p> <p>Background and current status: At its September 2014 meeting the Innovation WG proposed, and the IAASB agreed to establish a WG to specifically monitor the developing interest in integrated reporting and the demand for assurance on integrated reports. This includes initial thinking on the nature of such engagements, including the scope of the assurance engagement, the suitability of the criteria, and other matters related to assurance on integrated reports. The Board considered the draft working paper prepared by the IRWG Supporting Credibility and Trust in Emerging Forms of External Reporting in its June 2016.</p> <p>The Discussion Paper was issued in August 2016.</p> <p>In its June 2017 meeting, the IAASB received a presentation about the high-level observations from the comment letters received to the Discussion Paper, Supporting Credibility and Trust in Emerging Forms of External Reporting. It was noted that respondents generally supported the development of guidance on how to apply existing international assurance standards rather than developing new standards, and that the IAASB should continue to provide thought leadership on assurance issues and coordinate its work with other relevant organizations.</p> <p>The Board received an update on the project in December 2017. It was noted that the grant agreement with the World Business Council for Sustainable Development (WBCSD) was finalized for the funding of the project and that the Project Proposal and Feedback Statement has been finalized to be published on the IAASB's website. The board also received an update on the plan for developing the framework for the non-authoritative guidance for EER during the next year, including the required research to be gathered and the establishment of a Project Advisory Panel (PAP).</p> <p>Update for the period</p> <p>In its September 2018 meeting, the EER Task Force presented the remaining Phase 1 'issues' that were not presented in June alongside a first draft of the Phase 1 guidance. The Board noted the need for the guidance to demonstrate its full alignment with the requirements of ISAE 3000 (Revised), 5 and for the EER Task Force to provide further explanations about any guidance that goes beyond the requirements and application material in ISAE 3000 (Revised). The EER Task Force expects to receive further input from stakeholders during its forthcoming series of discussion events and will present a revised draft of the guidance to the IAASB in December 2018.</p>
<p>Agreed-Up Upon Procedures</p> <p>(has update for the period)</p>	<p>The objective of the project is to:</p> <p>A) Revise International Standard on Related Services (ISRS) 4400, Engagements to Perform Agreed-Up Procedures Regarding Financial Information in the Clarity format; and</p> <p>B) Consider whether standard-setting or other activities may be appropriate for engagements that use a combination of procedures derived from review, compilation and agreed-upon procedures engagements (also known as</p>

	<p>"hybrid engagements"), in light of the existing standards that may be applicable to these services in the IAASB's current suite of standards.</p> <p>Background and current status: During consultations on the IAASB's 2015-2019 Strategy and the related 2015-2016 Work Plan, many stakeholders expressed the need to revise ISRS 4400 to meet the growing demand for agreed-upon procedure engagements. In response to the stakeholders' comments, the IAASB established a working group to explore issues involving agreed-upon procedure engagements. The issues identified and discussed at the IAASB meetings will be used to revise ISRS 4400 and possibly develop new standard(s) or guidance that would address engagements where there is a combination of agreed-upon procedures and assurance.</p> <p>The Agreed-Upon Procedures (AUP) Working Group presented a first draft of its Discussion Paper, <i>Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and the Implications for the IAASB's Standards</i>, to the Board in June 2016. The IAASB provided the AUP Working Group with input to enhance the Discussion Paper and suggested that the paper pose a question to explore whether the IAASB should develop guidance on multi-scope engagements. The AUP Working Group will present a revised draft of the Discussion Paper at the September 2016 IAASB meeting.</p> <p>In its September 2017 meeting, the Board discussed the feedback received on the Discussion Paper and approved a standard-setting project proposal to revise ISRS 4400, subject to clarifications around the use of judgment, independence, restriction of the report of factual findings and required documentation.</p> <p>Update for the period</p> <p>In its September 2018 meeting, The Board approved the ED of ISRS 4400 (Revised)³ for public exposure. In finalizing the ED, the Board agreed that independence is not required for an AUP engagement and that the AUP report would include statements addressing circumstances when the practitioner is (or is not) required to be independent, and whether the practitioner is (or is not) independent. The ED will be issued in early November with a 120 day comment period</p>
<p>ISA 315 (Revised) (has update for the period)</p>	<p>The tentative objectives of the projects at this stage are:</p> <ul style="list-style-type: none"> A) to address the issues that have been identified by the ISA Implementation Monitoring project. B) Possible changes that may be necessary to ISA 315 (Revised) to enhance the requirements and guidance for evolving environmental influences (such as changing internal control frameworks and more advanced technology systems being utilized by both management and auditors). C) In its June 2016 meeting, the IAASB directed the ISA 315 (Revised) Working Group to present a project proposal for the IAASB's consideration at its September 2016 meeting to commence standard-setting activities. The project proposal was presented and approved in the IAASB's September 2016 meeting.

	<p>Since the December 2016 IAASB meeting, the task force has had one physical meeting and two teleconferences to develop the March meeting papers.</p> <p>In September 2017, the ISA 315 Task Force presented proposed changes to the requirements in ISA 315 (Revised) to address identified issues relating to understanding the entity and its environment, including the applicable financial reporting framework, and internal control, including obtaining an understanding of the five components of internal control. The Board broadly supported the proposals, but asked for consideration about some of the proposed changes to the definitions, as well as the perceived focus on controls in obtaining the necessary understanding of the components of internal control. With regard to proposed changes to the identification and assessment of inherent and control risk, the Board supported a separate assessment of inherent and control risk, but asked that the ISA 315 Task Force further consider how this works practically and highlighted that further clarification is needed relating to the assessment of control risk.</p> <p>In December 2017, the Board discussed a first read of proposed changes to the requirements and application material of ISA 315 (Revised)². The Board broadly supported the proposals, but asked for further consideration by the Task Force on various matters, including aspects of the definitions of ‘controls’ and ‘relevant assertions,’ and regarding the introduction of the term ‘business model’ and its interactions with current requirements of the standard. The Board also questioned the use of ‘sufficient and appropriate’ as it relates to potential confusion with “sufficient appropriate audit evidence” and whether a change may have unintended consequences if this concept were to be introduced as proposed. The Board encouraged further consideration about how fraud can be included as a qualitative inherent risk factor, taking into account how this would link to the fraud risk factors in ISA 240.3 The Board continued to be supportive of the introduction of “spectrum of risk” but thought the spectrum of risk could be better emphasized and explained earlier in the standard.</p> <p>The Board recognized the need for further consideration about scalability, but agreed that scalability should be presented through the requirements and application material in context of the auditor’s consideration of risk thereby eliminating the need for “considerations for smaller entities.”</p> <p>The Task Force will continue to progress the proposed changes to the standard for a second read of an exposure draft in March 2018.</p> <p>Update for the period</p> <p>The ED was issued in July 2018 for public consultation.</p> <p>Please refer agenda item 5.1</p>
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NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

DATE: 12 September 2018

TO: Members of the New Zealand Auditing and Assurance Standards Board

FROM: Peyman Momenan

SUBJECT: Domestic Update

Introduction

1. This Update summarises the significant news from Financial Market Authority, New Zealand Institute of Chartered Accountants and other organisations **for the Board's** information, for the period September and October 2018.

Financial Markets Authority (FMA)

1. The Financial Advisers Disciplinary Committee (FADC) has released [its decision in two cases brought by the FMA](#).

The New Zealand Institute of Chartered Accountants

1. In early 2018 ACCA and CA ANZ conducted a survey among its members globally to seek their views on robotic process automation (RPA) and its implications on the finance function. This report shares the results of the global survey and draws insights from leading organisations around the world on the adoption of robotics in finance, as well as sharing KPMG's client experience in RPA implementation.

[The report](#) addresses the wealth of opportunities that automation presents for the finance function, and like many new technologies, early adapters stand to benefit most.

CPA Australia

1. There have been no significant developments relating to audit and assurance to report in the period.

The Institute of Directors (IoD)

2. The Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry has **exposed significant issues this year and it's not over yet**. To date, there have been six public hearings (including on consumer lending practices, financial advice, loans to small and medium enterprises, superannuation, and insurance) and some entities giving evidence have already acknowledged misconduct. The final hearing in November will be on policy questions. In New Zealand, the Financial Markets Authority and the Reserve Bank of New Zealand engaged with banks earlier in the year and asked them to demonstrate to

consumers, regulators, and other stakeholders why our own Royal Commission is not necessary. A report on this is due in October/November 2018.

Sustainability Matters

1. There have been no significant developments relating to audit and assurance to report in the period.

To: NZAuASB members
From: Rowena Sinclair
Date: 11th October 2018
Re: Academic update 2018-6

Agenda 10.3

This sixth update for the year focusses firstly on one aspect of audit quality - auditors' judgement. It next considers something at the core of ensuring the viability of auditing retaining staff.

(1) AUDIT QUALITY - AUDITORS' JUDGEMENT

Impact from Audit Partner Identification

Audit partner identification is one tool utilised to enhance audit quality via increased audit partner accountability. Cianci, Houston, Montague & Vogel's (2017) US study examined whether partner identification increased audit quality. Their study finds that partner identification "*yields more aggressive write down judgments through its negative impact on partners' self-reported measures of commitment to the profession*" thus decreasing audit quality (Cianci, et. al, page 135).

Impact from Interruptions

Kim, Mayorga & Harding's (2017) Australian experimental study confirmed that auditors' performance deteriorates when interrupted. Further, they found that "*notifying auditors in advance when the expected interruption will occur reduces the extent to which memory and judgment quality is negatively affected*" (Kim, et. al, 2017, page 198). Thus, the authors warn against having interruption technology (e.g. emails, twitter) constantly open.

Professional scepticism

The concept of professional scepticism or sceptical judgement is continually grappled with by the profession and is considered at the core of many audit deficiencies. Nolder and Kadous (2018) develop a conceptual way of looking at professional scepticism that considers mindset and attitude (refer Figure 1).

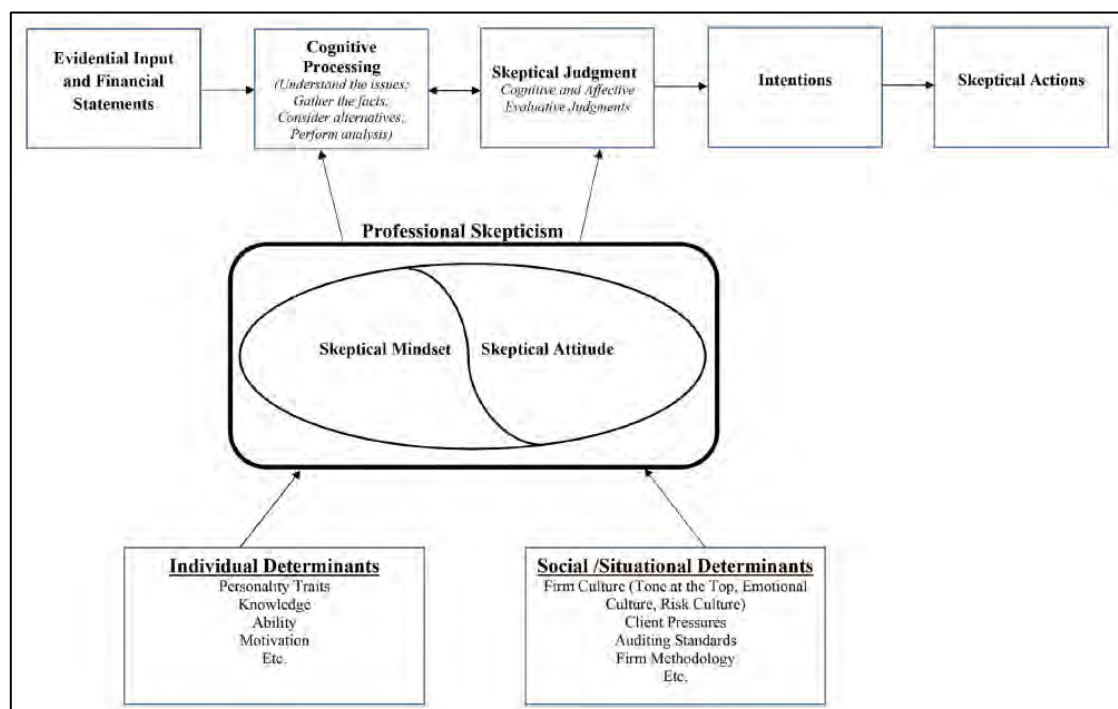


Figure 1 Auditor's professional scepticism (Nolder & Kadous, 2018, Figure 1, page 3)

Robinson, Curtis and Robertson (2018) rather than conceptualising professional scepticism attempt to measure the situational determinants i.e. state of professional scepticism (refer Figure 2).

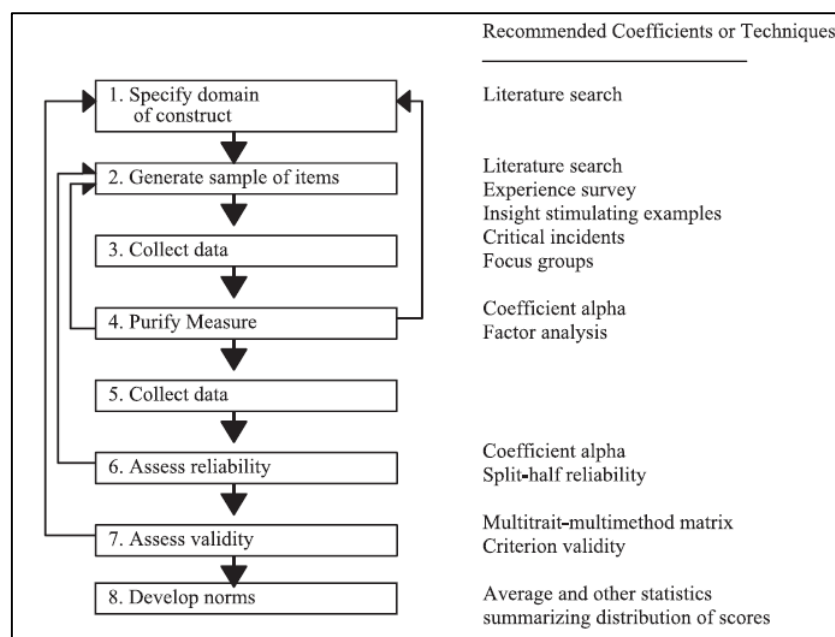


Figure 2 Churchill's (1979) Process for Better Measures (Robinson, et. al, 2018, Figure 1, page 218)

(2) RETENTION OF AUDIT STAFF

One of the keys to audit quality is retaining staff. Gertsson, Sylvander, Broberg, and Friberg's (2017) Swedish study explored the reasons why audit assistants left the audit profession. They did this by surveying 231 audit assistants, 78 whom had left the profession. Their survey utilised the career change factors identified in academic literature (refer Table 1).

Their study found that "work environment is not associated with a decision to leave" (Gertsson, et. al, 2017, page 893). Instead, work conditions particularly work-life balance was found to be the key factor in audit assistants' decision to stay or leave. Gertsson, et. al (2017, page 893) also found that "low perceptions of the profession is to consider the work as not being prestigious, having no meaning or societal benefits and not providing intellectual stimulus or career development".

Categories	Career change factors
Perceptions of the profession	Status and prestige; Sense of meaning; Expertise; Societal benefits.
Work conditions	Workload; Overtime; Flexibility; Working hours; Stress; Work-life Balance; Work-related travels.
Work environment	Autonomy; Varied work Assignments; Work Significance; Firm policy; Career Development; Promotional Justice; Compensational Justice; Performance Evaluation; Mentoring; Relationship with colleagues; Organizational pride.

Table 1 Career change factors (Extracted from Table I, Gertsson, et. al, 2017, pages 885-887)

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