

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 5.1
Meeting date: 24 October 2019
Subject: ED NZ SRE 2410
Date: 18 October 2019
Prepared by: Misha Pieters

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda Item Objectives

To:

- Note submissions received in response to NZAuASB ED 2019-1;
- Consider alternate views received in response to the description of the auditors' responsibilities related to going concern;
- Provide feedback on possible next steps.

Background

1. The NZAuASB together with the AUASB have a joint project to update the interim review report for changes made by the IAASB's auditor reporting project, as appropriate for a review engagement.
2. The NZAuASB had approved a draft exposure draft in February 2019, subject to comments from the AUASB. The AUASB approved an amended draft and issued AUASB ED 01/19 in May 2019. The AUASB made amendments to the exposure draft as approved by the NZAuASB at its February meeting, most significantly relating the way in which the auditor describes the responsibility in a review engagement.
3. The NZAuASB proposed an alternative way to describe these responsibilities at a teleconference and released the New Zealand exposure draft in July. The New Zealand [invitation to comment](#) sought feedback on both options, option 1 as proposed by the NZAuASB and option 2 as exposed by the AUASB.
4. The AUASB issued an addendum to AUASB ED 01/19 in July alerting the Australian stakeholders to the alternate view taken by the NZAuASB.

Update on Australian developments

5. The AUASB submission period closed at the beginning of September. 8 submissions were received, 2 from professional bodies and the rest from the large audit firms. The AUASB

discussed the submissions received at its September meeting on the 11th of September, in particular the description of the auditor's responsibilities related to going concern.

6. The Australian submissions and the AUASB acknowledged the public interest importance of aligning the description of the auditor's responsibilities across the Tasman. The AUASB agreed with the suggestion that a joint sub-committee may be a useful way forward to resolve the matter.
7. The feedback received by the AUASB has been considered, as relevant in New Zealand, and the more detailed drafting suggestions will be brought to the Board at the December meeting.

Update on New Zealand developments

8. Five submissions were received in response to the New Zealand invitation to comment, in addition to email responses in relation to the going concern issue. One submission only commented on the going concern matter.
9. We also sought views from the broader financial reporting supply chain, given that the changes have an objective linked to enhancing communication. We solicited views from the XRB Board, NZASB Board members, XRAP members and developed a survey to obtain views from investors and others. We also sought views from the FMA and the Reserve Bank.
10. A detailed analysis of the New Zealand feedback is presented at agenda item 5.3. Question 3 (related to going concern) has been analysed first (as the key matter arising for discussion in October) and the remaining questions and responses received follow.

Matters arising

11. The most significant matter arising is on the reporting of the auditor's responsibilities related to going concern. This matter is explored in the issues paper, and the Board is asked to consider the possible next steps identified in agenda item 5.2 and provide indicative views to assist the joint sub-committee to agree a way forward.
12. A second issue on which mixed views were received, relates to whether to include a section on Other Information. (Refer to question 4 in the analysis of feedback received). The Board is asked for indicative views as to whether this is a matter that should be re-considered.

Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Issues paper
Agenda item 5.3	Detailed analysis of New Zealand feedback

Submissions/feedback received

Agenda item 5.4.1	Michael Bradbury submission (academic XRB Board member)
Agenda item 5.4.2	CAANZ submission
Agenda item 5.4.3	CPA Australia submission
Agenda item 5.4.4	KPMG
Agenda item 5.4.5	EY submission
Agenda item 5.4.6	Email from FMA
Agenda item 5.4.7	Email from Reserve Bank
Agenda item 5.4.8	Feedback from SuperFund
Agenda item 5.4.9	Summary verbal feedback from XRB, XRAP and NZASB meeting
Agenda item 5.4.10	Online survey results (only 10 responses)

Issues paper – Amendments to NZ SRE 2410 (Going concern)

1. This issues paper considers the key messages related to the two options identified in the New Zealand Invitation to comment:

Option 1 (NZAuASB's preferred option)

"Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by [those charged with governance] is not appropriate and 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 a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the [period] financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern."

Option 2 (AUASB's preferred option)

"We make enquiries about whether management have changed their assessment of the entity's ability to continue as a going concern. When, as a 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 enquire of management 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. We consider the adequacy of the disclosures about such matters in the financial statements."

2. In summary, there was not strong support for either option, "both options have their weakness". There was more support for the sentiment expressed in option 1 but considerable pushback against the drafting.
3. Various views were received in relation to the proposed description of the auditors' responsibilities related to going concern. The variation in responses is indicative that this is both an important topic and a somewhat complex description to articulate. Key themes emerging include:
 - A public interest need for the NZAuASB and the AUASB to work together to agree a common approach.
 - A need to clarify the objective and scope of the proposals and the value added by doing so.
 - A need for simple, understandable language. (e.g. both options have low Flesch readability)
4. Additional factors to consider include:
 - The length and emphasis of the going concern description in the review report. If going concern is not an issue why draw so much attention to it? What value is added by highlighting that the auditor was not really looking at going concern and did not find anything.
 - The post implementation review of auditor reporting by the IAASB which will explore extending the reporting requirements beyond audits and a reluctance to go ahead of the IAASB. (More information in agenda item 10). It may also be relevant to note [new requirements](#) issued in the UK by the FRC, albeit not for an interim review, that go even further than ISA 570.
 - The overlap with the auditor's responsibilities at year end (and thus the relevance of the interim statement). NZ IAS 1 notes the preparers' assessment covers a period of at least 12 months. If an entity goes under 9 months after year end, the auditor will be accountable under ISA 570.

5. The following table is a summarised overview of the competing views received on option 1 (broken down into the separate sentences) and 2 as well general acknowledgement of the need to revisit the underlying requirements in NZ SRE 2410:

Approach	In favour	Concern
Listing the procedure from paragraph 19 (option 2)	Does not imply a higher requirement than 2410.	Incomplete. The procedure does not capture the responsibility. May infer long form reporting which may confuse. Lacks clarity about what has changed and from when.
Articulating the responsibility as a “negative” conclusion. (First sentence of option 1)	To capture the overarching “responsibility” and distinguish that from the audit. Some support for “conclude”. i.e. it is implicit.	Concern that “conclude” was too strong, may go beyond what is required. Sentences too long and language too complicated.
Addressing reporting responsibility when there is a material uncertainty (Second sentence option 1)	Generally supported	One comment that this does not really tell you anything as you would report a material uncertainty if there was anything to tell.
Future events may cast doubt on the ability of the entity to continue as a going concern (Third sentence option 1)	Generally supported (or no concerns raised)	One opposing view Deloitte Australia: “We don’t believe this is appropriate as it is extraneous for the circumstances of a review engagement, and it is out of context as there is no linkage to the date of the auditor’s review report (which is how it is structured in the auditor’s report under AS 700).”
A broader need to clarify the responsibility within the requirements of 2410 (i.e. a need to clarify para 19)	A number of suggestions for clarification in the standard	

6. The Board is asked to provide feedback on the following possible ways forward:

- A. Encourage the IAASB to relook at going concern and interim reviews as part of the post implementation review of the auditor reporting project. Remain silent on going concern in the interim review report until this is considered internationally.
- B. Perform a more comprehensive update to clarify the auditor’s responsibility related to going concern to address the gap in NZ SRE 2410. (Various suggestions provided by respondents). This

approach will require reconsideration and closer agreement on the objectives of the project. Currently there may be a misalignment of the scope of the project. At the September AUASB meeting, the AUASB described the scope as limited to “window dressing the report”. A key concern was not to get a head of the international requirements or require something more of practitioners here than is required elsewhere. An alternative interpretation of the scope (as staff understand it) was to align the interim review standard with the updates made from the IAASB’s auditor reporting project (mostly related but not limited to just the report). When the IAASB updated the auditor’s report, the Board revised ISA 570 *Going Concern* as part of that project. Under this “description” it may not be beyond the project scope to clarify the responsibilities in the standard, as was done by the IAASB as part of their project. Arguably there are already elements within the proposals that are not strictly limited to “window dressing the report”, (e.g., AUASB proposals to cover compliance frameworks). Additional specificity as to the objectives and purpose of the proposals may assist but will require additional work. A limited scope revision poses challenges. Respondents have raised additional items that may not be within scope, e.g. what to do in the first year of engagement?

- C. Retain the two last sentences of option 1 for which generally no substantive concerns were identified. “If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the [period] financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern.”
- D. Joint sub-committee to agree alternate wording. Specific suggestions provided by respondents include:

Based on the review procedures performed, including enquiries of those charged with governance, if we become aware of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern, we further 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. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusion is based on the procedures performed up to the date of the review report, however future events or conditions may cause the entity to cease to continue as a going concern.

A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our procedures include specific enquiries regarding the appropriateness of the use of the going concern basis of accounting by [those charged with governance] and consideration of the related disclosures. 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 [period] financial statements.

We enquire if management have changed their assessment of the entity’s ability to continue as a going concern.

If a matter comes to our attention that causes us to believe that a material going concern uncertainty exists, we:

- Enquire of management's plans for future actions and the feasibility of those plans to improve the situation; and
- Consider the adequacy of the financial statement disclosures.

Our review opinion is based on the procedures performed to the date of the review report. Future events or conditions may cause the entity to cease continuing as a going concern.

Our initial reaction to these suggestions is that many of the underlying concerns will remain. It is unlikely to be easily resolved unless the underlying responsibilities are clarified. While the suggestions may simplify the wording, there is no international equivalent base for these descriptions, therefore risking moving further away from the IAASB standards. In addition, these may still be considered to mix procedures with responsibilities. The length and context of the report is another key consideration. Concerns from users queried what problem the Board is trying to resolve by drawing attention to going concern in the report where no concern has been identified by the auditor as well as concern at leaving the user "hanging". If alternate wording is identified, it may also be relevant to consider the location of the wording and whether auditor can refer to the XRB website, consistent with the auditor's report.

Analysis of comments received on ED NZAuASB 2019-1 Amendments to NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (limited to going concern matters)

Practitioners (x2) : EY and KPMG (on the two options this is included in response to Q3)

Academic: Bradbury

Professional Bodies: CAANZ, CPA Australia

Regulator – email feedback from both the FMA (analysed in response to Q3) and the Reserve Bank (analysed in response to Q3)

Verbal feedback from XRB Board, NZASB and XRAP. (this is included in response to Q3)

Email feedback from investor (this is included in response to Q3)

Going concern feedback Q3

Introductory comments		
Respondent	Respondent Comment	Staff Comment
Bradbury	<p>I need to declare that I am an XRB Board member. However, this submission reflects my own personal view rather than those of the XRB or NZ AuASB.</p> <p>I should also mention that I am not an auditor. Hence, my remarks should be taken as those from a financial statement user who has a ‘reasonable’ but not expert knowledge (IASB Conceptual Framework 2.36).</p> <p>This submission is structured as follows. I first provide some background evidence on the usefulness of interim reviews, especially in relation to going concern. I then answer the ED questions for respondents. Appendix A provides my reasoning for Question 3.3. Appendix B is my suggested amendments to NZ SRE 2410.</p> <p><i>Background: Recent evidence on the usefulness of interim reports with going concern opinions</i></p>	<p>Noted</p> <p>These responses have been included at appropriate questions.</p>

	<p>By way of background I summarise the results of a recent study that looks at going concern conclusions in interim reports. Hence, it specifically investigates the issue at hand. Grosse and Scott (2019) examine information content of interim review assurances in Australia over the period 2007-2014. They find:</p> <ul style="list-style-type: none"> · 292 (7.2%) annual reports receive a going concern opinion (AGCO). · 259 (6.4%) interim financial statements receive a going concern conclusion (IGCC). These reports show a significant negative market reaction. · 112 (2.8%) of IGCC follow an annual report that did not receive an AGCO. These reports also show a negative market reaction. · The market reaction to an AGCO following a IGCC is lower. This indicates that IGCC is an effective early warning signal. · There is no difference to the market reaction between AGCO and IGCC. Thus, despite different level of assurance, the signals have the same market effect. <p>Note the study only examined the “average effect” and does not examine which signal (interim or annual) investors found more reliable.</p> <p>Reference</p> <p>Grosse, M. and Scott, T. (2019). Disclosure of interim review reports: Do interim going concern conclusions have information content? Working Paper, UTS and AUT</p>	
CAANZ	<p>We support aligning the format and content of the auditor’s interim review report with the enhanced annual auditor’s report to promote consistency. We commend the NZAuASB and the AUASB for working collaboratively on this project. Against this backdrop, we strongly encourage the two boards to reach agreement on how to describe the auditor’s responsibility in relation to going concern. In our view, the compelling reason test in the <i>XRB Tran-Tasman harmonisation principles</i> for differences to exist is not met. It is important that the description is aligned, especially for our members who are auditors of listed entities in both New Zealand and Australia. We believe having two differing descriptions is not in the public interest.</p>	Noted

	<p>The fact that the two boards have proposed different wording on how to describe the auditor's responsibility in relation to going concern in the review report, when the two standards are the same, may be indicative that the standard is deficient in this area and could benefit from additional clarity. However, we appreciate that this is outside the intended scope of this project, and it would mean making such amendments ahead of the IAASB. But we note that ISRE 2410 is not currently on the IAASB's workplan, so this issue is unlikely to be directly addressed in the short term. Although it may be peripheral to the IAASB's auditor reporting post-implementation review and/or its ongoing considerations of going concern issues.</p>	Note suggestion that the underlying requirements need clarification.
CPA	<p>CPA Australia supports the revision of NZ SRE 2410 in the absence of any project at the International Auditing and Assurance Standards Board to revise ISRS 2410. In particular, we support the scope of the revisions to reflect the current auditor's report format and content, and the outcomes of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR). We consider that it will be helpful to both auditors and users of financial statements for the language, scope and format of any interim review report prepared by the auditor of the entity to be consistent with the auditor's report issued at financial year end.</p> <p>However, to this end, we suggest that the alignment of the review report wording in revised NZ SRE 2410 could be much closer to the audit report wording in ISA (NZ) 700, particularly with respect to the nature and breadth of the procedures covered as part of the auditor's responsibilities. The responsibilities, included in the auditor's report in revised NZ SRE 2410, focus on procedures related to going concern but omit references to other core procedures. Consequently, the report is arguably unbalanced by not reflecting the range of key responsibilities of the auditor when conducting a review engagement. In addition, we consider that the applicable requirements in Professional and Ethical Standard (PES) 1 (revised) with respect to NOCLAR, for reviews conducted by the auditor, need to be better reflected in NZ SRE 2410.</p>	Noted

3.1 Do you agree that the requirement in paragraph 20 of the exposure draft should not make it explicit that the auditor is required to conclude on going concern and that this is implicit in the exposure draft as a whole?		
Respondent	Respondent Comment	Staff Comment
Bradbury	No. I consider the auditor should be required to explicitly conclude on any changes in going concern since the prior annual report and where there is a going concern doubt related to the interim report.	

	<p><i>ED-NZ-SRE 2410, Paragraph 20</i> 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”. Changed from when? Is it the last annual report or the prior (interim) review report? Furthermore, A53 refers to going concern doubt in the “prior audit or review report”. More clarity is necessary.</p> <p>In my view, both 2140.20 and A53 ought to explicitly refer to the last annual report.</p> <p>My reasoning, is that the primary goal of interim reporting is to present the financial position and performance for the interim period (IAS 34.25). There is no mention of going concern in IAS 34. However, there is a requirement to provide explanations for significant changes <i>since the end of the last annual report</i> (IAS 34.15). The nexus between the interim report and the last annual report is also strong in IAS 34.15A, which states that the user of the interim report will have access to the most recent annual report. I think these requirements are so fundamental to interim reporting that NZ SRE 2410 and A53 should make it explicit that the auditor is required to consider any change <i>since the end of the last annual report</i> (i.e., to be consistent with IAS 34.15).</p> <p>A second issue in A53 is whether the ‘prior review report’ refers to (1) last year’s interim review report or (2) the prior review report subsequent to the prior annual report (i.e., in the case of quarterly reporting). As noted above, there is an obligation in IAS 34.25 to use the prior annual report as a baseline to measure change. Given this, the prior year’s interim report would seem to be redundant. However, clarity is required when there is quarterly reporting.</p> <p>Appendix B: Amendments to NZ SRE 2410</p> <p>In relation to going concern, a major focus of the interim report (for both management and auditor) is to report any change in status since the last annual report. There are four possible outcomes:</p> <p>Possible outcomes: Going Concern Opinions (GCO)</p>	<p>Note suggestion to clarify the underlying requirement in 2410. Consider in next steps per issues paper.</p>
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				Percentage of population 2007-2014 (Grosse and Scott 2019)	
	<u>Outcomes</u>	<u>Annual Report</u>	<u>Interim Report</u>		
	1	Clean	Clean	91.1%	
	2	Clean	GCO	2.8%	
	3	GCO	Clean	2.5%	
	4	GCO	GCO	3.6%	
	<p>Outcomes 2 and 3 are important because there has been a change in going concern doubt since the prior annual report.</p> <p>However, outcome 4 is also relevant, even if there has been no change. It may not be a major problem because NZ SRE 2410.20 uses the inclusive phrase “or other review procedures”. However, outcome 4 seems to be so important that NZ SRE 2410 should explicitly cover this situation.</p> <p>Conclusion</p> <p>At a minimum the auditor has a direct requirement to report on changes in going concern from the previous assessment.</p> <p>However, I consider NZ SRE 2410 should explicitly consider the situation where there is going concern doubt expressed in the prior annual financial statements.</p> <p>In addition, it might be worth considering the prior interim report that is subsequent to prior annual report (i.e., where there is quarterly reporting).</p>				
FMA	<p>Material Uncertainty:</p> <p>In the instances the auditor notes that previous audits have resulted in significant concerns regarding to going concern, or notes that the entity has significant financial difficulties I believe that paragraph 20 is</p>				Note support for clarifying the underlying requirements of 2410

	<p>insufficient. There is only limited requirement to assess the going concern position of the entity. Paragraph 20 only indicates that in certain circumstances the auditor must make enquires but it is uncertain how robust procedures need to be to conclude on this assessment.</p> <p>Going concern is a fundamental principle for any set of financial statements. I would like to see more in this paragraph. Such as the requirement to review the entities cash-flow forecast for at least 12 months after providing the opinion and make a number of assessment of the reasonability of the assumptions made in the forecasts. Also the procedures that need to be performed when there is an indication of uncertainty should be expanded and may go towards procedures similar to ISA (NZ) 570.</p>	
CAANZ	<p>There is no requirement in the standard for an explicit conclusion on the appropriateness of the use of the going concern basis of accounting in the review report itself. However, the appropriateness of the use of the going concern basis of accounting, the existence of a material uncertainty and whether or not this is adequately disclosed in the financial report, impacts on the type of conclusion the auditor expresses (paragraphs 49-51 of the ED). This therefore implies the auditor must be required to evaluate these aspects and form a view in order to issue the review report.</p> <p>Given the importance of the underlying going concern assumption, we would expect there to be a separate section in the body of the standard that explicitly addresses the auditor's responsibility in relation to going concern. In contrast, there is a separate section for the "Auditor's Responsibility for Other Information" (paragraphs 26-27 of the ED), but the review report is silent about this. In our view, it is this gap in NZ SRE 2410 that has resulted in the NZAuASB and the AUASB arriving at different interpretations; ideally this gap should be addressed in the first instance. The lack of clarity in this regard may pose a risk in terms of legal implications.</p> <p>Paragraph 17 of the ED requires the auditor to conduct various procedures "to enable the 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 report is not prepared, in all material respects, in accordance with the applicable financial reporting framework." Most entities undergoing an interim review would have the going concern assumption as an integral part of their accounting framework (eg paragraph 3.9 of the 2018 NZ Conceptual Framework).</p> <p>In a review engagement by an assurance practitioner who is not the auditor of the entity, when the assurance practitioner becomes aware of events or conditions that may cast significant doubt about the</p>	<p>Note agreement that conclusion there is an implicit need to conclude.</p> <p>Note support for clarifying the underlying requirements of 2410</p>

	entity's ability to continue as a going concern, the assurance practitioner is required to "conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern" (paragraph 53, ISRE (NZ) 2400). We believe it would be reasonable for users to expect the same work effort around going concern for an interim review conducted by the auditor.	
CPA	We consider that paragraph 20, which 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", could be more clearly expressed. We suggest the procedures could instead require the auditor to enquire about the basis for those charged with governance's assessment of the entity's ability to continue as a going concern. Importantly, if it is intention of the standard that the auditor is required to conclude on going concern, then we suggest it is insufficient for that requirement to be implicit. Rather requirements should be clear in order to support consistent interpretation and application.	Note support for clarifying the underlying requirements of 2410

3.2 Do you agree that the review report should include a description of the responsibilities of both management and the auditor in respect of going concern? If not, why not?		
Respondent	Respondent Comment	Staff Comment
CAANZ	We agree, for the reasons set out in paragraph 23 of the ITC.	Noted
Bradbury	Yes. I think both responsibilities are required to be communicated to the reader. This should reduce the communication gap.	Noted
EY	We agree with the description of the responsibilities of management for the financial report, as described in the auditor's review report.	Noted
CPA	We are supportive of including the respective responsibilities regarding going concern. However, by including only those responsibilities and ignoring other key responsibilities, an imbalance may be created in the matters reported; potentially over-emphasising the responsibilities in relation to going concern.	Noted – highlights need to get the balance appropriate in the context of the report as a whole.
Staff overall comment: General support for addressing going concern in the report.		

3.3 Do you agree with the NZAuASB’s preferred option (in paragraph 28) to describe the auditor’s responsibilities related to going concern? If not, why not?

Respondent	Respondent Comment	Staff Comment																								
Bradbury	<p>I think both options have their weakness. In Appendix A I comment on both options and on the interim review report.</p> <p>Appendix A</p> <p>In choosing between these options I examine two features: (1) readability and (2) content.</p> <p><i>Readability</i></p> <p>I compare option 1 and 2 on readability statistics. I also compare my own suggested wording which is discussed below.</p> <table><tr><td></td><td><u>Option 1</u></td><td><u>Option 2</u></td><td><u>My suggestion</u></td></tr><tr><td>Words</td><td>131</td><td>111</td><td>95</td></tr><tr><td>Characteristics</td><td>660</td><td>579</td><td>486</td></tr><tr><td>Average words per sentence</td><td>43.6</td><td>17.5</td><td>14.2</td></tr><tr><td>Flesch readability score</td><td>17.8</td><td>36.7</td><td>43.9</td></tr><tr><td>Flesch-Kincaid grade</td><td>21.6</td><td>12.4</td><td>10.6</td></tr></table> <p>Options 1 and 2 are similar in terms of the number of words and characteristics. Option 1 has extremely long sentences (average 43.6 words) relative to option 2 (17.5 words). Option 2 is more readable (i.e., it has the higher Flesch readability score) and has a lower Flesch-Kincaid reading grade (e.g., a US reading grade of 12 equals senior year).</p> <p>In addition to the word analysis, option 2 is more appealing because it has white space and bullet points.</p> <p>Hence, even if option 1 contained the same content, it needs to be re-written in plain(er) English.</p>		<u>Option 1</u>	<u>Option 2</u>	<u>My suggestion</u>	Words	131	111	95	Characteristics	660	579	486	Average words per sentence	43.6	17.5	14.2	Flesch readability score	17.8	36.7	43.9	Flesch-Kincaid grade	21.6	12.4	10.6	Note suggestion to enhance drafting and improve readability
	<u>Option 1</u>	<u>Option 2</u>	<u>My suggestion</u>																							
Words	131	111	95																							
Characteristics	660	579	486																							
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<p><i>Content</i></p> <p>I like the start of option 2 because it continues on from the previous paragraph (“We make enquiries...”) and it focuses on the change. The change from what? Prior annual or prior interim? Thereafter, it moves into third person “the auditor”, rather than “we”, which reduces readability.</p> <p>The following is an attempt to capture the auditor’s responsibilities and improve readability (relative to the options in the ED).</p> <p style="padding-left: 40px;">We enquire if management have changed their assessment of the entity’s ability to continue as a going concern.</p> <p style="padding-left: 40px;">If a matter comes to our attention that causes us to believe that a material going concern uncertainty exists, we:</p> <ul style="list-style-type: none"> • Enquire of management’s plans for future actions and the feasibility of those plans to improve the situation; and • Consider the adequacy of the financial statement disclosures. <p style="padding-left: 40px;">Our review opinion is based on the procedures performed to the date of the review report. Future events or conditions may cause the entity to cease continuing as a going concern.</p> <p>The readability statistics are higher and the reading grade is lower for the suggested wording.</p> <p>However there is no point in re-writing the auditor’s responsibilities without re-examining the whole of the audit review opinion for plain English. In my view the audit report fails to communicate effectively because it is written to reduce auditors’ liability rather than communicate to the financial statement readers. The following is my attempt at re-writing the audit report in plain English. {THIS</p>	<p>Note alternative description for consideration</p> <p>The need to rewrite the entire report may be inconsistent with the strategy of adoption of international standards.</p>
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	IS INCLUDED AS AN APPENDIX TO THIS STAFF ANALYSIS} However, if this approach is adopted, I recommend that a professional copy editor is employed.	
Reserve Bank	On the particular question of the going concern section, the Reserve Bank is comfortable with either option. Option one appears clearer to us about what the auditor's reporting obligation is if they identify any material uncertainty related to going concern. This is more consistent with being useful for the users of the financial statements/audit report. We are therefore comfortable with the NZAuASB's preferred option in the exposure draft.	Noted
Summary of verbal feedback received from XRB/NZASB/XRAP meetings	<p>The XRB Board, the NZASB and the XRAP were all asked to consider the two options identified in the invitation to comment and to provide feedback in their role as preparer, user, auditor, etc.</p> <p>The overarching message received was not much support for either option (both options were criticised for being hard to understand) but strong support for the NZAuASB to work with the AUASB to align the approach. XRAP queried what problem the Board was trying to solve. From a user perspective it is unhelpful to highlight that the auditor was not really looking for going concern issues and didn't find anything. i.e. neither of these options are value adding statements. Either option has the potential to widen the expectation gap.</p> <p>Feedback suggested caution at the level of emphasis in the review report given to going concern, especially where the auditor has no concerns. Either option 1 or 2 may overly emphasize going concern. It was reiterated that if this level of emphasis is to be given to going concern, it is important that the report closes the matter out to clearly indicate that the auditor did not find anything. The majority of XRB Board members, NZAuASB members and XRAP representatives present were more supportive of option 1 (or at least the intent</p>	Note concerns with both options, support for sentiment of option 1 together with suggestions for improvements.

	of option 1) as the basis for the report, with only one member at both the NZASB and XRB meetings preferring option 2.	
XRB verbal feedback	<p>Majority of members expressed a preference for option 1.</p> <p>Comments in favour of Option 1:</p> <ul style="list-style-type: none"> Option 2 leaves it hanging, makes you assume going concern is ok. Option 2- “is that all it says” – is there a conclusion. Likes option 1, negative wording. Going concern review is justified, always a risk, option 1 frames it enough. Option 1 wording is very clear that this is negative assurance. Option 2 really confusing, expect the auditor to do more than make enquiries, is misleading, made enquiries but does not explain what it is. A review is more than enquiry- it could be misleading. If you made enquiries- it could mean you did a lot of work. Preference for option 1 as Option 2 could be read one way or another. <p>Comments in favour of option 2:</p> <ul style="list-style-type: none"> Option 1 is vague and passive, does not list specific procedures so unclear what auditor has done. Option 1 sounds more like I stumbled across it, so wonder if you actively looked for it, did you actively go out and ask? Will I take away an inappropriate level of comfort? Took more comfort from option 2, but maybe that is the risk, taking too much comfort from option 2. Option 1 may be safer and does like the health warning statement- people think it’s a guarantee as an audit report. Maybe combine somehow. Do you think it is too soft i.e., we do nothing only if you stumble across something. Option 1 may confuse user. Important for managements responsibilities to be clear too. Like option 2 as it highlights the judgement and distinguishes it from an audit. Agrees re health warning. Also suggested combining with 2. 	Note suggestions for consideration when next steps are agreed

	<p>An alternative view was not supportive of either option, thinks both options could imply more assurance and widen the expectation gap, and there is already a misconception on the guarantee. No-one understands the difference between an audit and a review except for the auditors. Still wants something in the report – did not support the do nothing option, rather suggested a cross reference back to the previous audit report (akin to the accounting policies – this is condensed so financial statements don't include all accounting policies rather cross refers to annual report.</p>	
Verbal feedback received from NZASB	<p>The NZAuASB were asked to consider the two options identified in the invitation to comment and to provide feedback in their role as preparer, user, auditor, etc, rather than as a technical board.</p> <p>The majority of NZAuASB members present (six members) were more supportive of option 1 as the basis for the report, with one member preferring option 2.</p> <p>Suggestions and comments on option 1 included:</p> <ul style="list-style-type: none"> • Support for the language in the first sentence that reflects the limited (negative) assurance. This is especially useful to distinguish the review from the audit. • In order to improve the communicative value, explore use of bullet points, shorter sentences and more white space to assist the reader. One member noted that this option appears too legalistic so if this approach is to be retained would encourage the NZAuASB to relook at the layout to improve readability. • While preferring option 1, suggested the wording should avoid the “if” or “may” approach which is too general to be useful. The user wants to know if the auditor has found anything. • Given this is an assurance engagement, this language is consistent with the auditor's responsibility. • Very supportive of the last sentence of option 1, regarding future events. 	Note suggestions for consideration when next steps are agreed

	<ul style="list-style-type: none"> • This runs the risk that it appears like a second opinion. Suggestion to rather incorporate into preceding paragraphs in the report more generally. <p>An area of possible confusion identified by option 1 is whether the auditor is required to provide a “mini-conclusion” on going concern. Just like for reporting of key audit matters, if the report is drawing attention to going concern, it is important that the report closes the matter out. Two members suggested that option 1 may need to go even further, i.e. based on the procedures performed nothing came to our attention related to going concern. Staff noted that the auditor is not required to provide mini-opinions and that such reporting does not even happen in the audit report. One comment noted that the going concern responsibility should tie back to last annual audit report, given that the auditors’ conclusion at year end reaches beyond the 6-month interim review period. What is important to the user is whether anything has changed since year end.</p> <p>Specific comments on option 2 included:</p> <ul style="list-style-type: none"> • This option provides information on the procedures rather than the responsibilities. • This is not telling the user whether the auditor found anything. • From a communicative value, the use of bullet points and shorter sentences is an advantage as it is more user-friendly language. <p>Feedback suggested caution at the level of emphasis in the review report given to going concern, especially where the auditor has no concerns. Either option 1 or 2 may overly emphasize going concern. One member reiterated that if this level of emphasis is to be given to going concern, it is important that the report closes the matter out to clearly indicate that the auditor did not find anything.</p>	
Verbal feedback from XRAP	<p>Generally a lack of support for either option was expressed:</p> <ul style="list-style-type: none"> • Did not like either option, found them both really hard to understand. Going concern is important. Option 1: first sentence is 65 words long, didn’t get what it was saying as was explained in the presentation. 	Note suggestions for consideration when next steps are agreed

	<ul style="list-style-type: none"> • Agree didn't really like either. But preferred sentiment that option 1 was trying to convey – clearer statement. Option 2 seems to just be pushing back to TCWG. • Questioned what problem we are trying to solve. Why drag out going concern specifically? • Thinks this is saying, “not really looking and not found anything” – gives reader nothing (no comfort at all). Not adding any value so why saying anything. • Option 1 specific comment: relook at “Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate <u>and</u> whether a material uncertainty exists related to events or conditions that may cast significant doubt” Is this not an OR? • Option 2 specific comment: option 2 Relook at “We make enquiries whether those charged with governance have <u>changed their assessment</u> of the entity's ability to continue as a going concern.” Unclear what the change refers to – changed from when or from what? Had a material uncertainty and haven't changed my mind? • Would prefer much simpler wording. • Directors are making an assessment on going concern – shareholders want auditors to validate that. How does the solvency test fit into this? Only when making a distribution. Option 2 focus is on Focus on what done – then there is a matter of inference. • Asked XRAP whether anything from either option 1 or 2 was especially useful – not much enthusiasm for any parts really. • Criticism of the second sentence in option 1 - not really saying much as if you had a MU would report it. 	
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<p>Extract from email from Investor (NZ SuperFund)</p>	<p>They resoundingly support Option 1 as an investor. It is more robust and requires them to formally perform some procedures.</p> <p>They also acknowledge that it increases the requirements of auditors. We also discussed the merits of whether a management attestation might be needed given the difficulties in recognising if a client is being evasive.</p> <p>They expected that most auditors would prefer option 2.</p>	<p>Noted</p>
<p>CAANZ</p>	<p>We do not agree with the first sentence of the NZAuASB's preferred option (option 1), but we do agree with the remainder. We believe option 1 more closely reflects the auditor's responsibility in relation to going concern. We do not agree with how the auditor's responsibility in relation to going concern has been described in option 2 (in paragraph 30 of the ITC). Our reasons for this are as follows:</p> <ul style="list-style-type: none"> • We question if procedures are analogous to responsibilities. We believe responsibilities are at a higher level and broader than procedures. • If taking a 'procedural requirement' approach, in our view just replicating paragraph 20 of the ED does not provide a complete list of requirements in relation to going concern. • Listing specific procedures may be inferred as long-form reporting which may cause confusion. • The absence of what the auditor is required to do if the outcome of the said procedures indicates going concern issues leaves users to draw their own conclusions. <p>In addition, we encourage the board to consider if there is value in clarifying in the review report:</p> <ul style="list-style-type: none"> • What the auditor does <i>not</i> conclude on regarding going concern (eg confirming the future viability of the entity); • That going concern remains an assumption by management about the foreseeable future and that assurance cannot be placed on future events; and • That the going concern assumption is an area of significant judgement by both management and auditor. 	<p>Noted, support for second two sentences of option 1.</p>

KPMG	<p>We are supportive of the proposed changes to be made to NZ SRE 2410. In relation to the two options related to going concern, we are supportive of option one. We would like to note that If the auditor's responsibilities is extended to a more fulsome synopsis of their procedures, as suggested to balance the going concern procedures, then it would be preferable for those to be able to be linked to the NZAuASB website so that the review report doesn't become too long and wordy.</p>	<p>Noted, support for option 1. Consider need to refer to a website once agreed next steps.</p>
EY	<p>In our view, it is not implicit in the standard as a whole that the auditor has a responsibility to conclude on going concern in the interim review. The nature of the procedures the auditor is required to perform by paragraph 20 of the standard are very limited, in line with the procedures on all matters in a review as compared to an audit. For the report to explicitly state that the auditor has concluded on going concern overstates the extent of the work the reviewer is required to perform and could be read to infer positive rather than negative assurance in relation to the basis of preparation of the financial statements and any related going concern disclosure. In our view, paragraph 20 should not be amended to require explicit conclusion on going concern even though we do not consider it implicit in the (extant) exposure draft as a whole. The standard does not require explicit or positive conclusion on any element of the financial statements, which we consider to be commensurate with the procedures performed in a review.</p> <p>We agree that including information in the interim review report for the user regarding both the auditor and management responsibilities is important. The inclusion of both management and auditor responsibilities provides important context to the reader of the interim review report.</p> <p>In specific consideration of the NZAuASB suggested wording options for the description of the responsibility in respect of going concern, in our view: We do not agree with the NZAuASB's preferred option (in paragraph 28) to describe the auditor's responsibilities related to going concern. The scope of proposed amendments of ED 2019-1 are, deliberately, mainly to the reporting requirements and are not intended to substantially change the work</p>	<p>Note concern that "to conclude" may infer a positive assurance.</p> <p>Note support for covering going concern in the report.</p> <p>Note concern that option 1 may be interpreted as changing the work the auditor is doing.</p>

	<p>performed by auditors when performing review of a financial report. Amending the auditor's review report to explicitly state a responsibility to conclude on going concern on the basis of inquiries could be viewed as changing the extent of the work to be performed in excess of that intended by the standard.</p> <p>In considering the reporting options presented, we believe the description in Option 1, "Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate" suggests a requirement to express a positive and explicit conclusion on the going concern basis of accounting in addition to the conclusion on the financial report in its entirety, which (as explained above) we do not consider to be appropriate given the extent of the procedures required to be performed.</p> <p>In considering the wording in Option 2 it could be argued that this places undue emphasis on the auditor's responsibility to inquire of those charged with governance. It places lesser emphasis on the consideration of evidence gathered from other review procedures to become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</p> <p>Furthermore, in our view, the description of the auditor's responsibilities in relation to going concern as drafted in Option 2 reflects the specific requirements of paragraph 20 of the ED 2019¹ but does not include the reporting responsibilities included within paragraph 49-51 relating to material uncertainty related to going concern and inappropriate use of the going concern assumption. We suggest below two potential alternatives to the options presented:</p> <ol style="list-style-type: none"> 1. Amend the proposed wording to that suggested by our Australian firm to the AUASB: 	<p>Note alternatives for further consideration. Initial staff view is that while these alternatives may overcome some of the concerns, these still run the risk of confusing procedures with responsibility. Given that this is an assurance engagement, we consider that the responsibility is not only to perform procedures. While we agree there is no requirement to separately opine on going concern, and this is not what the</p>
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	<p>We make enquiries about whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When as a result of this enquiry or other Based on the review procedures performed, including enquiries of those charged with governance, if we become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, we further 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. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusion is based on the procedures performed up to the date of the review report, however future events or conditions may cause the entity to cease to continue as a going concern. we consider the adequacy of the disclosure about such matters in the financial report."</p> <p>2. Reflecting the fact that both Options 1 and 2 presented could be viewed as overstating the significance of consideration of going concern in a review when compared to an audit, reducing the extent of mention of going concern in the proposed review report by adding wording to the "Auditor's Responsibility for the Review of the Financial Statements" section of the report. Our suggested wording is:</p> <p>A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our procedures include specific enquiries regarding the appropriateness of the use of the going concern basis of accounting by [those charged with governance] and consideration of the related disclosures. The procedures performed in a review are substantially less</p>	<p>communication is intended to convey, some are confused by this approach. Staff consider that this same criticism could be made in relation to the revised auditor's report. Another factor to consider is how far the Board wishes to deviate from the international review report approach.</p>
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	<p>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 [period] financial statements.</p> <p>We acknowledge that this approach does not as closely follow the approach in the audit report of including a separate section in relation to going concern, but do consider that this alternative may better reflect the extent of procedures required in a review as opposed to an audit.</p>	
CPA	<p>We consider that option 1 wording explains the work effort more clearly than option 2 and clarifies the period considered and the risk that conditions may change in the future, as well as aligning more closely to ISA (NZ) 700 (revised) report wording. Option 2 wording only reflects the procedures in paragraph 20, but fails to encapsulate the response to the outcome of those procedures in paragraphs 49-51. Nevertheless, we note that practitioners are concerned that the option 1 wording may imply a greater level of work effort than is appropriate for a review engagement, by requiring a conclusion on going concern. It is also important for reporting entities which operate in both Australia and New Zealand for the requirements for reporting to be as consistent as possible. Therefore we encourage the NZAuASB and the AUASB to align wording of their respective review reports. This may necessitate alternative wording to be developed which does not reflect option 1 or 2.</p>	Noted. Consider possible options in issues paper.
Staff overall comments: Possible next steps identified are explored in the issues paper and we seek feedback from the board on these options.		

Analysis of the remaining questions (for further consideration in December)

1 Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?		
Respondent	Respondent Comment	Staff comment
Bradbury	Grosse and Scott (2019) show that interim reports are important market signals. Hence, enhancing the credibility of the interim report, is a relevant issue to address. Amending the auditor's review report on interim financial statements to be consistent with the format and structure of the enhanced audit report is a logical step. Therefore, in general terms, I support the proposals. Harmonising with Australia is also a major objective.	Noted
CAANZ	We agree with the scope and key proposals. Since the auditor's report was enhanced, there has been divergence in practice in relation to the format and content of interim review reports. While consistency is encouraged, we would prefer it to be mandated within a standard.	Noted
EY	We generally agree with the proposals to incorporate the reporting amendments made to the annual audit report into the interim review report.	Noted
CPA	Yes, we are supportive of incorporating the amendments made to the annual audit report into the interim review report to provide consistency between the two reports.	Noted
Overall staff comment: Overall support for the project.		

2 More specifically, do you agree with the proposals to require the auditor to: <ul style="list-style-type: none"> 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 partner's name? d. To refer to a "Material Uncertainty Related to Going Concern" rather than an Emphasis of Matter paragraph, when appropriate? 		
Respondent	Respondent Comment	Staff comment
Bradbury	Yes (to all these questions). These logically follow on from the purpose of structuring the interim review to be consistent with the enhanced annual audit report.	Noted
CAANZ	We agree with the proposals.	Noted
EY	We agree with the above proposals.	Noted
CPA	<p>Yes (to a and d)</p> <p>Yes (to b) although we suggest that it would be preferable for the NZ and Australian wording to be aligned in the interim review report. We note that an additional statement is required in NZ ED SRE 2410 "as to the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity or any of its subsidiaries".</p> <p>Yes (to c), when the reporting entity is an FMC reporting entity with higher public accountability</p>	<p>Noted</p> <p>We note that this difference exists in the annual auditor's report. This is long standing requirement in New Zealand that was retained when adopting the revised auditor reporting requirements in NZ.</p> <p>Noted</p>
Staff summary: Overall agreement with the remaining proposals.		

4. 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?		
Respondent	Respondent Comment	Staff comment
Bradbury	No comment.	Noted
CAANZ	We agree, for the reasons set out in paragraph 35 of the ITC.	Noted
EY	We are not convinced that there is a compelling argument to not require a section on Other Information in the interim review report. As most interim reports would be published by entities with commentary and other information attached, it would be useful for the user to understand the context of our responsibilities in relation to Other Information in the interim report. However, we agree that it is a pragmatic solution to consider this potential improvement at a later date.	Possible matter for joint sub-committee to consider
CPA	As interim financial statements will typically be published in conjunction with other information, such as the directors' report, we suggest that it would aid transparency to include a section on other information, when applicable, to clarify what the auditor did in relation to that other information.	Possible matter for joint sub-committee to consider
<p>Staff comment: Mixed views on whether or not it is appropriate to include an "other information" section consistent with the annual auditor's report. Possible matter to reconsider.</p> <p>The rationale for excluding this as articulated in the ITC is as follows:</p> <p>"The NZAuASB is not proposing to include a section on "Other Information" for interim review engagements. There is less "other information" reported at the interim stage and therefore there is no need to place additional reporting requirements on the auditor at the interim stage. This may be re-considered after a post implementation review of the reporting requirements has been completed by the IAASB."</p>		

5. 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?		
Respondent	Respondent Comment	Staff comment
Bradbury	Given that the option to refer to a website when describing the auditor's responsibility is available for an annual audit, I see no reason why it should not also be an option for an interim review.	Suggestion to include the option.
CAANZ	We agree, for the reasons set out in paragraph 36 of the ITC.	Noted
EY	We generally do agree that reference to a website is unnecessary. We think that our suggested auditor responsibility section wording related to going concern may counterbalance any perceived overweighting of increased description in the proposed reports.	Noted – reconsider need dependent on outcome of going concern description.
CPA	<p>Whether there is a need to allow for reference to a website for the auditor's responsibilities will depend on how lengthy the responsibilities become. The description, in the exposure draft, of the auditor's responsibilities when performing a review is more condensed than for an audit, because not all of the responsibilities have been included. It is not because the procedures performed for a review are substantially less than an audit.</p> <p>Whilst the responsibilities of the auditor and management required to be included in the review report have been expanded relative to the extant standard in paragraph 37(d) and in the illustrative reports, we note that those responsibilities do not encompass all of the key matters for which the auditor is responsible. Whilst it would be preferable that the interim review report not become too lengthy, the procedures are somewhat imbalanced and so potentially over-emphasise the procedures conducted in relation to going concern.</p> <p>We consider that the auditor's responsibilities described in the review report could be more closely aligned with those detailed in the auditor's report under ISA (NZ) 700. For example, in addition to "making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures" (which addresses the procedures in para. 17), we suggest that other key procedures in NZ SRE 2410 that could be described in the review report are:</p> <ul style="list-style-type: none"> • Consideration of materiality, using professional judgement, when determining the nature, timing and extent of review procedures, and evaluating the effect of misstatements. (para. 16) • Obtaining evidence that the financial statements agree or reconcile with the underlying accounting records. (para. 18) 	<p>Noted – reconsider need dependent on outcome of going concern description.</p> <p>Noted. Board to consider whether there is a compelling reason to differ from the approach to international approach to review reports? One may argue that this difference existed between the old auditors' report and</p>

	<ul style="list-style-type: none"> 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, making additional enquiries or performing other procedures to enable the auditor to express a conclusion in the auditor's review report. (para. 21) <p>This list may not be complete and would need further consideration in order to appropriately summarise the responsibilities reflected in NZ SRE 2410. By including all of the auditor's key responsibilities in conducting a review in the review report, it puts the going concern procedures into context. If more extensive auditor's responsibilities are included then the option, to reference to the NZAuASB website rather than state the responsibilities in full, is more likely to be needed by auditors.</p>	<p>the extant review report, therefore to expand the review report in this manner may be making a more fundamental change to the review report.</p>
<p>Overall staff comment: Reconsider need for reference to website once agree next steps for the description of the going concern responsibilities.</p>		

6 Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?		
Respondent	Respondent Comment	Staff comment
Bradbury	I do not see how KAMs can be developed from review procedures (without converting the review into an audit or giving the impression that it is an audit). Furthermore, IAS 34.15A states that the users of the interim report will have access to the most recent annual report. Hence, the reader will have information on typical 'account-level' KAMs.	Noted
CAANZ	We agree for the reasons set out in paragraph 34 of the ITC.	Noted
EY	We agree that it is not appropriate to include Key Review Matters in the review report.	Noted
CPA	We agree it is not appropriate to report such matters in the interim report, but this can be reconsidered in the future.	Noted
Overall staff comment: All agree that the reporting of KAMs is not appropriate. No further action required.		

7 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?		
Respondent	Respondent Comment	Staff
Bradbury	No comment.	Noted
CAANZ	We agree with the proposed amendments.	Noted
EY	We agree with the proposed amendments to align the standard with the new ethical framework regarding non-compliance with laws and regulations. We consider the treatment in NZ SRE 2410 to be appropriate.	Noted
CPA	<p>Yes, we support amendments to reflect the requirements relating to non-compliance with laws and regulations (NOCLAR) so that auditors are clear on their responsibilities with respect to following up on instances of, or suspected, NOCLAR when conducting reviews. However, we consider that the applicable requirements of the PES 1 (revised), with respect to NOCLAR, need to be more fully addressed in the revised standard.</p> <p>Whilst additional requirements for NOCLAR are included in paragraph 31 of the ED, we consider that the following amendments are also needed:</p> <ul style="list-style-type: none"> a) Inclusion of the following requirements under the heading “Enquiries, Analytical and Other Review Procedures”: <ul style="list-style-type: none"> (i.) the auditor to enquire about whether the entity is aware of any NOCLAR (See ISA (NZ) 250 (revised) paragraph 15), and (ii.) if the auditor becomes aware of an instance of, or suspects, NOCLAR, to obtain an understanding of the nature of the act and the circumstances in which it has occurred, as well as further information to evaluate the possible effect on the financial statements (See ISA (NZ) 250 (revised) paragraph 19). b) Amendment of paragraph 31 to better reflect the communications the auditor would need to undertake under PES 1. In particular, rather than requesting “management’s assessment of the effect on the financial statements” (subparagraph 31(b)), we consider there should be a requirement to address the circumstance where management or those charged with governance (TCWG) may be involved in the NOCLAR and consider the need for the auditor to obtain legal advice. (See ISA (NZ) 250 (revised), paragraphs 25). <p>We support reference to (NZ) 250 (revised) as a source of guidance.</p>	<p>Noted.</p> <p>To consider in December</p>
Overall staff comment: general support for NOCLAR conforming amendments noted, with some suggestions for additional material to be added. Staff highlight that Australian stakeholders also had various suggestions on these proposals, some of which may be Australian specific (given that in New Zealand we have aligned the NOCLAR framework for audits and reviews). We will reflect on additional comments with AUASB staff to determine whether further action is required and report back in December.		

8 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?		
Respondent	Respondent Comment	Staff comment
Bradbury	At a minimum the auditor has a direct requirement to report on <i>changes</i> in going concern from the previous assessment. However, I consider NZ SRE 2410 should explicitly consider where there is going concern doubt expressed in the prior annual financial statements. See reasoning in Appendix B.	Noted. Need to revisit whether the requirements should be revisited to be considered in issues paper.
CAANZ	<p><i>Trans-Tasman agreement on going concern</i></p> <p>We consider it in the public interest that the NZAuASB and the AUASB reach agreement on the wording of the auditor's responsibilities in relation to going concern in the interim review report.</p> <p><i>Compliance frameworks</i></p> <p>While we acknowledge reviews of interim financial reports prepared in accordance with compliance frameworks are not inconceivable, we expect them to be rare. If NZ SRE 2410 is to also include reference to compliance frameworks, we have the following observations:</p> <ul style="list-style-type: none"> • Paragraph A2 of the ED appears to only address fair presentation frameworks. • The wording changes in paragraph 36(a) of the ED appear to be inconsistent with paragraph 12(a) of the ED <p><i>"Adequate disclosure"</i></p> <p>It is not clear what "adequate disclosure" would be in an interim financial report when there is a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern. In contrast, paragraph 19 of ISA (NZ) 570 prescribes four specific disclosure requirements for annual financial statements that are subject to audit:</p> <ul style="list-style-type: none"> • The principle events or conditions that may cast doubt on the entity's ability to continue as a going concern; • Management's plans for dealing with these events or conditions; 	<p>Noted</p> <p>Extant NZ SRE 2410 already covers compliance frameworks. Drafting will be reconsidered in the updated draft of the exposure draft in December.</p> <p>Noted. Scope question – this may be beyond "window dressing the report". Reconsider dependent on what decision is taken related to next steps as considered in issues paper.</p>

	<ul style="list-style-type: none"> • That there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and • That, therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. 	
EY	<p>We have not identified any significant further required amendments to NZ SRE 2410. However, we have noted the following potential grammar/typographical amendments to the proposed wording in the standard:</p> <ul style="list-style-type: none"> • In paragraph 26 we think the wording "whether there is material inconsistencies" should be amended to "whether there is are any material inconsistencies". • In paragraph 34 f(i) we think the following highlighted wording is missing "When expressing an unmodified conclusion on financial statements prepared in accordance with a fair presentation framework, 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, in all material respects, the financial position of the entity and of its financial performance and its cash flows or if applicable are not true and fair, 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)." • In paragraph 34 f(ii) we believe the wording should be "that the financial statements have statements has not been prepared" • In paragraph 49a we suggest the addition of a potential plural as follows "Draw attention to the note(s)" 	Noted – to consider in drafting for December.
CPA	<p>We recommend that:</p> <ul style="list-style-type: none"> • "auditor of the entity" is defined to clarify that it means the auditor of the entity's annual financial statements. • reference is made to ISA (NZ) 570 as guidance when reviewing management's assessment of the entity's ability to continue as a going concern and determining the adequacy of disclosure of a material uncertainty in relation to going concern. 	<p>Noted. Scope question and/or is there a compelling reason to add a definition to the standard?</p> <p>The ED already includes a reference in application material (A54) "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.</p>

Overall staff comment: Additional suggestions, together with suggestions received from Australian stakeholders (as relevant to New Zealand) will be brought to the Board in December.

9 Do you agree with the proposed effective date? If not, please explain why not.		
Respondent	Respondent Comment	Staff comment
Bradbury	No comment.	Noted
EY	Given the limited scope of the revisions to NZ SRE 2410, we consider the proposed effective date to be appropriate.	Noted
CPA	Whilst an effective date of periods commencing on or after 1 January 2020 provides a very short implementation period, we consider that the amendments do not change the fundamental work effort from that which currently should be undertaken. It largely impacts the report format and content, which should not present much difficulty to implement. The revisions also reflect other existing requirements, such as those in relation to NOCLAR, which need to be brought to the auditor's attention. Consequently, unless there is a significant delay in publishing the final standard, we agree with the effective date as drafted.	Noted
Overall staff comment: No concerns with proposed effective date raised. No further action required.		

Appendix 1

Other comments

Respondent comment		Staff comment
<p>However, there is no point in re-writing the auditor's responsibilities without re-examining the whole of the audit review opinion for plain English. In my view the audit report fails to communicate effectively because it is written to reduce auditors' liability rather than communicate to the financial statement readers. The following is my attempt at re-writing the audit report in plain English. However, if this approach is adopted, I recommend that a professional copy editor is employed.</p>		<p>Noted. Rewording the entire report may not align with the NZAuASB's objective of aligning with international standards.</p>
NZ SRE 2410	Plain English Example	
<p>INDEPENDENT AUDITOR'S REVIEW REPORT</p> <p>To [Appropriate Addressee]</p> <p>Report on the [appropriate title for the financial statements] Financial Statements</p>	<p>INDEPENDENT AUDITOR'S REVIEW REPORT</p> <p>To [Appropriate Addressee]</p> <p>Report on the [appropriate title for the financial statements] Financial Statements</p>	
<p>Conclusion</p> <p>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.</p>	<p>Conclusion</p> <p>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.</p>	
<p>Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that</p>	<p>Based on our review, nothing has come to our attention that causes us to believe that these [period] financial statements of</p>	<p>Agree – consider in December.</p>

these [period] financial statements of [name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].	[name of entity] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].	
<p>Basis for Conclusion</p> <p>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 the relevant ethical requirements in New Zealand, and we 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]. [</p>	<p>Basis for Conclusion</p> <p>We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity.</p> <p>Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity]. We are independent of the [entity] and have fulfilled our responsibilities in accordance relevant ethical requirements in New Zealand.</p>	
<p>[Title of those charged with governance] Responsibility for the [period] Financial Statements</p> <p>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]</p>	<p>[Title of those charged with governance] Responsibility for the [period] Financial Statements</p> <p>The [title of those charged with governance] of the [type of entity] are responsible for the preparation [and fair presentation] of the [period] financial statements in accordance with the [applicable financial reporting framework].</p> <p>The [title of those charged with governance] are also responsible for establishing internal controls to enable the preparation [and fair presentation] of the [period] financial</p>	

This change was introduced in the New Zealand standards by the NZAuASB.

financial statements that are free from material misstatement, whether due to fraud or error.	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.	In preparing the financial statements, the [those charged with governance] are responsible for assessing the entity's ability to continue as a going concern and make appropriate disclosures.		
<p>Auditor's Responsibilities for the Review of the Financial Statements</p> <p>Our responsibility is to express a conclusion on the [period] financial statements based on our review. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial statements, taken as a whole, are not prepared in all material respects, in accordance with the [applicable financial reporting framework].</p>	<p>Auditor's Responsibilities for the Review of the Financial Statements</p> <p>Our responsibility is to express a conclusion on the [period] financial statements based on our review. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial statements, taken as a whole, are not prepared in all material respects, in accordance with the [applicable financial reporting framework].</p>		
<p>A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in</p>	<p>A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, consisting of:</p> <ul style="list-style-type: none"> • Making enquiries of persons responsible for financial and accounting matters, and • Applying analytical and other review procedures. 		

	<p>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 [period] financial statements.</p>	<p>These procedures are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Consequently they do not enable us to obtain assurance that we might identify in an audit.</p>		
	<p>Based on the review procedures performed, we conclude whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by [those charged with governance] is not appropriate and 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 a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the [period] financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the procedures performed up to the date of the review report. However, future events or conditions may cause the entity to cease to continue as a going concern.</p>	<p>We enquire if management have changed their assessment of the entity's ability to continue as a going concern.</p> <p>If a matter comes to our attention that causes us to believe that a material going concern uncertainty exists, we:</p> <ul style="list-style-type: none"> • Enquire of management's plans for future actions and the feasibility of those plans to improve the situation; and • Consider the adequacy of the financial statement disclosures. <p>Our review opinion is based on the procedures performed to the date of the review report. Future events or conditions may cause the entity to cease continuing as a going concern.</p>		



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Dear Warren

**ED NZAuASB 2019-1: Amendments to New Zealand Standard on Review Engagements
2410 *Review of Financial Statements Performed By The Independent Auditor of the Entity.***

I attach my comments on ED NZAuASB 2019-1. In general, I think the contents of the ED are relevant, timely and appropriate.

I need to declare that I am an XRB Board member. However, this submission reflects my own personal view rather than those of the XRB or NZ AuASB.

I should also mention that I am **not** an auditor. Hence, my remarks should be taken as those from a financial statement user who has a 'reasonable' but not expert knowledge (IASB Conceptual Framework 2.36).

This submission is structured as follows. I first provide some background evidence on the usefulness of interim reviews, especially in relation to going concern. I then answer the ED questions for respondents. Appendix A provides my reasoning for Question 3.3. Appendix B is my suggested amendments to NZ SRE 2410.

Sincerely

Michael Bradbury

1 October 2019

Background: Recent evidence on the usefulness of interim reports with going concern opinions

By way of background I summarise the results of a recent study that looks at going concern conclusions in interim reports. Hence, it specifically investigates the issue at hand. Grosse and Scott (2019) examine information content of interim review assurances in Australia over the period 2007-2014. They find:

- 292 (7.2%) annual reports receive a going concern opinion (AGCO).
- 259 (6.4%) interim financial statements receive a going concern conclusion (IGCC). These reports show a significant negative market reaction.
- 112 (2.8%) of IGCC follow an annual report that did not receive an AGCO. These reports also show a negative market reaction.
- The market reaction to an AGCO following a IGCC is lower. This indicates that IGCC is an effective early warning signal.
- There is no difference to the market reaction between AGCO and IGCC. Thus, despite different level of assurance, the signals have the same market effect.

Note the study only examined the “average effect” and does not examine which signal (interim or annual) investors found more reliable.

Reference

Grosse, M. and Scott, T. (2019). Disclosure of interim review reports: Do interim going concern conclusions have information content? Working Paper, UTS and AUT.

ED Questions

1. Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?

Grosse and Scott (2019) show that interim reports are important market signals. Hence, enhancing the credibility of the interim report, is a relevant issue to address.

Amending the auditor's review report on interim financial statements to be consistent with the format and structure of the enhanced audit report is a logical step.

Therefore, in general terms, I support the proposals. Harmonising with Australia is also a major objective.

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 partner's name?
- d. To refer to a "Material Uncertainty Related to Going Concern" rather than an Emphasis of Matter paragraph, when appropriate?

Yes (to all these questions). These logically follow on from the purpose of structuring the interim review to be consistent with the enhanced annual audit report.

3. Questions specific to going concern

- 3.1 Do you agree that the requirement in paragraph 20 of the exposure draft should not make it explicit that the auditor is required to conclude on going concern and that this is implicit in the exposure draft as a whole?

No. I consider the auditor should be required to explicitly conclude on any changes in going concern since the prior annual report and where there is a going concern doubt related to the interim report.

ED-NZ-SRE 2410, Paragraph 20 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". Changed from when? Is it the last annual report or the prior (interim) review report? Furthermore, A53 refers to going concern doubt in the "prior audit or review report". More clarity is necessary.

In my view, both 2140.20 and A53 ought to explicitly refer to the last annual report.

My reasoning, is that the primary goal of interim reporting is to present the financial position and performance for the interim period (IAS 34.25). There is no mention of going concern in IAS 34. However, there is a requirement to provide explanations for significant changes *since the end of the last annual report* (IAS 34.15). The nexus between the interim report and the last annual report is also strong in IAS 34.15A, which states that the user of the interim report will have access to the most recent annual report. I think these requirements are so fundamental to interim reporting that NZ SRE 2410 and A53 should make it explicit that the auditor is required to consider any change *since the end of the last annual report* (i.e., to be consistent with IAS 34.15).

A second issue in A53 is whether the ‘prior review report’ refers to (1) last year’s interim review report or (2) the prior review report subsequent to the prior annual report (i.e., in the case of quarterly reporting). As noted above, there is an obligation in IAS 34.25 to use the prior annual report as a baseline to measure change. Given this, the prior year’s interim report would seem to be redundant. However, clarity is required when there is quarterly reporting.

3.2 Do you agree that the review report should include a description of the responsibilities of both management and the auditor in respect of going concern? If not, why not?

Yes. I think both responsibilities are required to be communicated to the reader. This should reduce the communication gap.

3.3 Do you agree with the NZAuASB’s preferred option (in paragraph 28) to describe the auditor’s responsibilities related to going concern? If not, why not?

I think both options have their weakness. In Appendix A I comment on both options and on the interim review report.

4. 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?

No comment.

5. 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?

Given that the option to refer to a website when describing the auditor’s responsibility is available for an annual audit, I see no reason why it should not also be an option for an interim review.

6. Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?

I do not see how KAMs can be developed from review procedures (without converting the review into an audit or giving the impression that it is an audit). Furthermore, IAS 34.15A states that the users of the interim report will have access to the most recent annual report. Hence, the reader will have information on typical ‘account-level’ KAMs.

7. 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?

No comment.

8. 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?

At a minimum the auditor has a direct requirement to report on *changes* in going concern from the previous assessment. However, I consider NZ SRE 2410 should explicitly consider

where there is going concern doubt expressed in the prior annual financial statements. See reasoning in Appendix B.

9. Do you agree with the proposed effective date? If not, please explain why not.

No comment.

Appendix A: Question 3.3 - Preferred Option

In choosing between these options I examine two features: (1) readability and (2) content.

Readability

I compare option 1 and 2 on readability statistics. I also compare my own suggested wording which is discussed below.

	<u>Option 1</u>	<u>Option 2</u>	<u>My suggestion</u>
Words	131	111	95
Characteristics	660	579	486
Average words per sentence	43.6	17.5	14.2
Flesch readability score	17.8	36.7	43.9
Flesch-Kincaid grade	21.6	12.4	10.6

Options 1 and 2 are similar in terms of the number of words and characteristics. Option 1 has extremely long sentences (average 43.6 words) relative to option 2 (17.5 words). Option 2 is more readable (i.e., it has the higher Flesch readability score) and has a lower Flesch-Kincaid reading grade (e.g., a US reading grade of 12 equals senior year).

In addition to the word analysis, option 2 is more appealing because it has white space and bullet points.

Hence, even if option 1 contained the same content, it needs to be re-written in plain(er) English.

Content

I like the start of option 2 because it continues on from the previous paragraph (“We make enquiries...”) and it focuses on the change. The change from what? Prior annual or prior interim? Thereafter, it moves into third person “the auditor”, rather than “we”, which reduces readability.

Suggested wording

The following is an attempt to capture the auditor’s responsibilities and improve readability (relative to the options in the ED).

We enquire if management have changed their assessment of the entity’s ability to continue as a going concern.

If a matter comes to our attention that causes us to believe that a material going concern uncertainty exists, we:

- Enquire of management’s plans for future actions and the feasibility of those plans to improve the situation; and
- Consider the adequacy of the financial statement disclosures.

Our review opinion is based on the procedures performed to the date of the review report. Future events or conditions may cause the entity to cease continuing as a going concern.

The readability statistics are higher and the reading grade is lower for the suggested wording.

However, there is no point in re-writing the auditor's responsibilities without re-examining the whole of the audit review opinion for plain English. In my view the audit report fails to communicate effectively because it is written to reduce auditors' liability rather than communicate to the financial statement readers. The following is my attempt at re-writing the audit report in plain English. However, if this approach is adopted, I recommend that a professional copy editor is employed.

NZ SRE 2410	Plain English Example
INDEPENDENT AUDITOR'S REVIEW REPORT To [Appropriate Addressee] Report on the [appropriate title for the financial statements] Financial Statements	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.	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] are not prepared, in all material respects, in accordance with [applicable financial reporting framework].	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].
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 the relevant ethical requirements in New Zealand, and we 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	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. Other than in our capacity as assurance practitioner we have no relationship with, or interests in, [name of entity]. We are independent of the [entity] and have fulfilled our responsibilities in accordance relevant ethical requirements in New Zealand.

relationship with, or interests in, [name of entity]. [
<p>[Title of those charged with governance] Responsibility for the [period] Financial Statements</p> <p>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.</p>	<p>[Title of those charged with governance] Responsibility for the [period] Financial Statements</p> <p>The [title of those charged with governance] of the [type of entity] are responsible for the preparation [and fair presentation] of the [period] financial statements in accordance with the [applicable financial reporting framework].</p> <p>The [title of those charged with governance] are also responsible for establishing internal controls to enable the preparation [and fair presentation] of the [period] financial statements that are free from material misstatement, whether due to fraud or error.</p>
<p>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.</p>	<p>In preparing the financial statements, the [those charged with governance] are responsible for assessing the entity's ability to continue as a going concern and make appropriate disclosures.</p>
<p>Auditor's Responsibilities for the Review of the Financial Statements</p> <p>Our responsibility is to express a conclusion on the [period] financial statements based on our review. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial statements, taken as a whole, are not prepared in all material respects, in accordance with the [applicable financial reporting framework].</p>	<p>Auditor's Responsibilities for the Review of the Financial Statements</p> <p>Our responsibility is to express a conclusion on the [period] financial statements based on our review. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the [period] financial statements, taken as a whole, are not prepared in all material respects, in accordance with the [applicable financial reporting framework].</p>
<p>A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review</p>	<p>A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, consisting of:</p> <ul style="list-style-type: none"> • Making enquiries of persons responsible for financial and accounting matters, and

<p>procedures. 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 [period] financial statements.</p>	<ul style="list-style-type: none"> • Applying analytical and other review procedures. <p>These procedures are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Consequently they do not enable us to obtain assurance that we might identify in an audit.</p>
<p>Based on the review procedures performed, we conclude whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by [those charged with governance] is not appropriate and 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 a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the [period] financial statements or, if such disclosures are inadequate, to modify our conclusion. Our conclusions are based on the procedures performed up to the date of the review report. However, future events or conditions may cause the entity to cease to continue as a going concern.</p>	<p>We enquire if management have changed their assessment of the entity's ability to continue as a going concern.</p> <p>If a matter comes to our attention that causes us to believe that a material going concern uncertainty exists, we:</p> <ul style="list-style-type: none"> • Enquire of management's plans for future actions and the feasibility of those plans to improve the situation; and • Consider the adequacy of the financial statement disclosures. <p>Our review opinion is based on the procedures performed to the date of the review report. Future events or conditions may cause the entity to cease continuing as a going concern.</p>

Appendix B: Amendments to NZ SRE 2410

In relation to going concern, a major focus of the interim report (for both management and auditor) is to report any change in status since the last annual report. There are four possible outcomes:

Possible outcomes: Going Concern Opinions (GCO)

Outcomes	Annual Report	Interim Report	Percentage of population 2007-2014 (Grosse and Scott 2019)
1	Clean	Clean	91.1%
2	Clean	GCO	2.8%
3	GCO	Clean	2.5%
4	GCO	GCO	3.6%

Outcomes 2 and 3 are important because there has been a change in going concern doubt since the prior annual report.

However, outcome 4 is also relevant, even if there has been no change. It may not be a major problem because NZ SRE 2410.20 uses the inclusive phrase “or other review procedures”. However, outcome 4 seems to be so important that NZ SRE 2410 should explicitly cover this situation.

Conclusion

At a minimum the auditor has a direct requirement to report on **changes** in going concern from the previous assessment.

However, I consider NZ SRE 2410 should explicitly consider the situation where there is going concern doubt expressed in the prior annual financial statements.

In addition, it might be worth considering the prior interim report that is subsequent to prior annual report (i.e., where there is quarterly reporting).

16 October 2019

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Dear Warren

Submission on ED NZAuASB 2019-1 Amendments to New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*

CPA Australia represents the diverse interests of more than 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

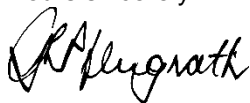
CPA Australia supports the revision of NZ SRE 2410 in the absence of any project at the International Auditing and Assurance Standards Board to revise ISRS 2410. In particular, we support the scope of the revisions to reflect the current auditor's report format and content, and the outcomes of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR). We consider that it will be helpful to both auditors and users of financial statements for the language, scope and format of any interim review report prepared by the auditor of the entity to be consistent with the auditor's report issued at financial year end.

However, to this end, we suggest that the alignment of the review report wording in revised NZ SRE 2410 could be much closer to the audit report wording in ISA (NZ) 700, particularly with respect to the nature and breadth of the procedures covered as part of the auditor's responsibilities. The responsibilities, included in the auditor's report in revised NZ SRE 2410, focus on procedures related to going concern but omit references to other core procedures. Consequently, the report is arguably unbalanced by not reflecting the range of key responsibilities of the auditor when conducting a review engagement. In addition, we consider that the applicable requirements in Professional and Ethical Standard (PES) 1 (revised) with respect to NOCLAR, for reviews conducted by the auditor, need to be better reflected in NZ SRE 2410.

Our responses to the specific questions included in ED NZAuASB 2019-1 are provided in the attachment.

If you require further information on the views expressed in this submission, please contact Claire Grayston, Policy Adviser – Audit and Assurance, on +61 3 9606 5183 or at claire.grayston@cpaustralia.com.au.

Yours sincerely



Dr Gary Pflugrath
Head of Policy and Advocacy

ATTACHMENT

1. **Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?**

Yes, we are supportive of incorporating the amendments made to the annual audit report into the interim review report to provide consistency between the two reports.

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?**

Yes

- b. **Include the independence statement in the interim review report?**

Yes, although we suggest that it would be preferable for the NZ and Australian wording to be aligned in the interim review report. We note that an additional statement is required in NZ ED SRE 2410 “as to the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity or any of its subsidiaries”.

- c. **To include the engagement partner’s name?**

Yes, when the reporting entity is an FMC reporting entity with higher public accountability.

- d. **To refer to a “Material Uncertainty Related to Going Concern” rather than an Emphasis of Matter paragraph, when appropriate?**

Yes

3. **Questions specific to going concern**

- 3.1 **Do you agree that the requirement in paragraph 20 of the exposure draft should not make it explicit that the auditor is required to conclude on going concern and that this is implicit in the exposure draft as a whole?**

We consider that paragraph 20, which 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”, could be more clearly expressed. We suggest the procedures could instead require the auditor to enquire about the basis for those charged with governance’s assessment of the entity’s ability to continue as a going concern. Importantly, if it is intention of the standard that the auditor is required to conclude on going concern, then we suggest it is insufficient for that requirement to be implicit. Rather requirements should be clear in order to support consistent interpretation and application.

- 3.2 **Do you agree that the review report should include a description of the responsibilities of both management and the auditor in respect of going concern? If not, why not?**

We are supportive of including the respective responsibilities regarding going concern. However, by including only those responsibilities and ignoring other key responsibilities, an imbalance may be created in the matters reported; potentially over-emphasising the responsibilities in relation to going concern.

3.3 Do you agree with the NZAuASB's preferred option (in paragraph 28) to describe the auditor's responsibilities related to going concern? If not, why not?

We consider that option 1 wording explains the work effort more clearly than option 2 and clarifies the period considered and the risk that conditions may change in the future, as well as aligning more closely to ISA (NZ) 700 (revised) report wording. Option 2 wording only reflects the procedures in paragraph 20, but fails to encapsulate the response to the outcome of those procedures in paragraphs 49-51. Nevertheless, we note that practitioners are concerned that the option 1 wording may imply a greater level of work effort than is appropriate for a review engagement, by requiring a conclusion on going concern. It is also important for reporting entities which operate in both Australia and New Zealand for the requirements for reporting to be as consistent as possible. Therefore we encourage the NZAuASB and the AUASB to align wording of their respective review reports. This may necessitate alternative wording to be developed which does not reflect option 1 or 2.

4. 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?

As interim financial statements will typically be published in conjunction with other information, such as the directors' report, we suggest that it would aid transparency to include a section on other information, when applicable, to clarify what the auditor did in relation to that other information.

5. 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?

Whether there is a need to allow for reference to a website for the auditor's responsibilities will depend on how lengthy the responsibilities become. The description, in the exposure draft, of the auditor's responsibilities when performing a review is more condensed than for an audit, because not all of the responsibilities have been included. It is not because the procedures performed for a review are substantially less than an audit.

Whilst the responsibilities of the auditor and management required to be included in the review report have been expanded relative to the extant standard in paragraph 37(d) and in the illustrative reports, we note that those responsibilities do not encompass all of the key matters for which the auditor is responsible. Whilst it would be preferable that the interim review report not become too lengthy, the procedures are somewhat imbalanced and so potentially over-emphasise the procedures conducted in relation to going concern.

We consider that the auditor's responsibilities described in the review report could be more closely aligned with those detailed in the auditor's report under ISA (NZ) 700. For example, in addition to "making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures" (which addresses the procedures in para. 17), we suggest that other key procedures in NZ SRE 2410 that could be described in the review report are:

- Understanding of the entity and its environment, including its internal control, sufficient to plan and conduct the engagement so as to be able to identify the types of potential material misstatements and consider the likelihood of their occurrence, and select the enquiries, analytical and other review procedures that will provide the auditor with a basis for their review conclusion. (para. 14)

- Consideration of materiality, using professional judgement, when determining the nature, timing and extent of review procedures, and evaluating the effect of misstatements. (para. 16)
- Obtaining evidence that the financial statements agree or reconcile with the underlying accounting records. (para. 18)
- 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, making additional enquiries or performing other procedures to enable the auditor to express a conclusion in the auditor's review report. (para. 21)

This list may not be complete and would need further consideration in order to appropriately summarise the responsibilities reflected in NZ SRE 2410. By including all of the auditor's key responsibilities in conducting a review in the review report, it puts the going concern procedures into context. If more extensive auditor's responsibilities are included then the option, to reference to the NZAuASB website rather than state the responsibilities in full, is more likely to be needed by auditors.

6. Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?

We agree it is not appropriate to report such matters in the interim report, but this can be reconsidered in the future.

7. 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??

Yes, we support amendments to reflect the requirements relating to non-compliance with laws and regulations (NOCLAR) so that auditors are clear on their responsibilities with respect to following up on instances of, or suspected, NOCLAR when conducting reviews. However, we consider that the applicable requirements of the PES 1 (revised), with respect to NOCLAR, need to be more fully addressed in the revised standard.

Whilst additional requirements for NOCLAR are included in paragraph 31 of the ED, we consider that the following amendments are also needed:

- a) Inclusion of the following requirements under the heading "Enquiries, Analytical and Other Review Procedures":
 - (i.) the auditor to enquire about whether the entity is aware of any NOCLAR (See ISA (NZ) 250 (revised) paragraph 15), and
 - (ii.) if the auditor becomes aware of an instance of, or suspects, NOCLAR, to obtain an understanding of the nature of the act and the circumstances in which it has occurred, as well as further information to evaluate the possible effect on the financial statements (See ISA (NZ) 250 (revised) paragraph 19).
- b) Amendment of paragraph 31 to better reflect the communications the auditor would need to undertake under PES 1. In particular, rather than requesting "management's assessment of the effect on the financial statements" (subparagraph 31(b)), we consider there should be a

requirement to address the circumstance where management or those charged with governance (TCWG) may be involved in the NOCLAR and consider the need for the auditor to obtain legal advice. (See ISA (NZ) 250 (revised), paragraphs 25).

We support reference to (NZ) 250 (revised) as a source of guidance.

8. 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?

We recommend that:

- “auditor of the entity” is defined to clarify that it means the auditor of the entity’s annual financial statements.
- reference is made to ISA (NZ) 570 as guidance when reviewing management’s assessment of the entity’s ability to continue as a going concern and determining the adequacy of disclosure of a material uncertainty in relation to going concern.

9. Do you agree with the proposed effective date? If not, please explain why not.

Whilst an effective date of periods commencing on or after 1 January 2020 provides a very short implementation period, we consider that the amendments do not change the fundamental work effort from that which currently should be undertaken. It largely impacts the report format and content, which should not present much difficulty to implement. The revisions also reflect other existing requirements, such as those in relation to NOCLAR, which need to be brought to the auditor’s attention. Consequently, unless there is a significant delay in publishing the final standard, we agree with the effective date as drafted.

Feedback received from KPMG

We are supportive of the proposed changes to be made to NZ SRE 2410. In relation to the two options related to going concern, we are supportive of option one. We would like to note that If the auditor's responsibilities is extended to a more fulsome synopsis of their procedures, as suggested to balance the going concern procedures, then it would be preferable for those to be able to be linked to the NZAuASB website so that the review report doesn't become too long and wordy.

Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142
New Zealand

14 October 2019

Dear Warren,

Exposure Draft NZAuASB 2019-1 on proposed amendments to NZ SRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*

Ernst & Young New Zealand welcomes the opportunity to offer its views on the exposure draft, *Proposed NZ SRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity* (ED 2019-1), issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

Our views on the NZAuASB's specific questions in relation to ED 2019-1

1. *Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?*

We generally agree with the proposals to incorporate the reporting amendments made to the annual audit report 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 partner's name?*
- d. To refer to a "Material Uncertainty Related to Going Concern" rather than an Emphasis of Matter paragraph, when appropriate?*

We agree with the above proposals.

3. *Questions specific to going concern*

3.1 *Do you agree that the requirement in paragraph 20 of the exposure draft should not make it explicit that the auditor is required to conclude on going concern and that this is implicit in the exposure draft as a whole?*

3.2 *Do you agree that the review report should include a description of the responsibilities of both management and the auditor in respect of going concern? If not, why not?*

3.3 *Do you agree with the NZAuASB's preferred option (in paragraph 28) to describe the auditor's responsibilities related to going concern? If not, why not?*

In our view, it is not implicit in the standard as a whole that the auditor has a responsibility to conclude on going concern in the interim review. The nature of the procedures the auditor is required to perform by paragraph 20 of the standard are very limited, in line with the procedures on all matters in a review as compared to an audit. For the report to explicitly state that the auditor has concluded on going concern overstates the extent of the work the reviewer is required to perform and could be read to infer positive rather than negative assurance in relation to the basis of preparation of the financial statements and any related going concern disclosure. In our view, paragraph 20 should not be amended to require explicit conclusion on going concern even though we do not consider it implicit in the (extant) exposure draft as a whole. The standard does not require explicit or positive conclusion on any element of the financial statements, which we consider to be commensurate with the procedures performed in a review.

We agree that including information in the interim review report for the user regarding both the auditor and management responsibilities is important. The inclusion of both management and auditor responsibilities provides important context to the reader of the interim review report.

In specific consideration of the NZAuASB suggested wording options for the description of the responsibility in respect of going concern, in our view:

We do not agree with the NZAuASB's preferred option (in paragraph 28) to describe the auditor's responsibilities related to going concern. The scope of proposed amendments of ED 2019-1 are, deliberately, mainly to the reporting requirements and are not intended to substantially change the work performed by auditors when performing review of a financial report. Amending the auditor's review report to explicitly state a responsibility to conclude on going concern on the basis of inquiries could be viewed as changing the extent of the work to be performed in excess of that intended by the standard.

In considering the reporting options presented, we believe the description in Option 1, "Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate" suggests a requirement to express a positive and explicit conclusion on the going concern basis of accounting in addition to the conclusion on the financial report in its entirety, which (as explained above) we do not consider to be appropriate given the extent of the procedures required to be performed.

In considering the wording in Option 2 it could be argued that this places undue emphasis on the auditor's responsibility to inquire of those charged with governance. It places lesser emphasis on the consideration of evidence gathered from other review procedures to become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Furthermore, in our view, the description of the auditor's responsibilities in relation to going concern as drafted in Option 2 reflects the specific requirements of paragraph 20 of the ED 2019-1 but does not include the reporting responsibilities included within paragraph 49-51 relating to material uncertainty related to going concern and inappropriate use of the going concern assumption.

We suggest below two potential alternatives to the options presented:

1. Amend the proposed wording to that suggested by our Australian firm to the AUASB:
~~We make enquiries about whether those charged with governance have changed their assessment of the entity's ability to continue as a going concern. When as a result of this enquiry or other~~ **Based on the review procedures performed, including enquiries of those charged with governance, if we become aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, we further 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. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our conclusion. Our conclusion is based on the procedures performed up to the date of the review report, however future events or conditions may cause the entity to cease to continue as a going concern.** ~~we consider the adequacy of the disclosure about such matters in the financial report."~~

2. Reflecting the fact that both Options 1 and 2 presented could be viewed as overstating the significance of consideration of going concern in a review when compared to an audit, reducing the extent of mention of going concern in the proposed review report by adding wording to the "Auditor's Responsibility for the Review of the Financial Statements" section of the report. Our suggested wording is:

A review of [period] financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. Our procedures include specific enquiries regarding the appropriateness of the use of the going concern basis of accounting by [those charged with governance] and consideration of the related disclosures. 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 [period] financial statements.

We acknowledge that this approach does not as closely follow the approach in the audit report of including a separate section in relation to going concern, but do consider that this alternative may better reflect the extent of procedures required in a review as opposed to an audit.

4. ***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?***

We are not convinced that there is a compelling argument to not require a section on Other Information in the interim review report. As most interim reports would be published by entities with commentary and other information attached, it would be useful for the user to understand the context of our responsibilities in relation to Other Information in the interim report.

However, we agree that it is a pragmatic solution to consider this potential improvement at a later date.

5. ***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?***

We generally do agree that reference to a website is unnecessary. We think that our suggested auditor responsibility section wording related to going concern may counterbalance any perceived overweighting of increased description in the proposed reports.

6. ***Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?***

We agree that it is not appropriate to include Key Review Matters in the review report.

7. ***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?***

We agree with the proposed amendments to align the standard with the new ethical framework regarding non-compliance with laws and regulations. We consider the treatment in NZ SRE 2410 to be appropriate.

8. 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?

We have not identified any significant further required amendments to NZ SRE 2410. However, we have noted the following potential grammar/typographical amendments to the proposed wording in the standard:


- ▶ In paragraph 26 we think the wording “whether there is material inconsistencies” should be amended to “whether there ~~is~~ are any material inconsistencies”.
- ▶ In paragraph 34 f(i) we think the following highlighted wording is missing “When expressing an unmodified conclusion on financial statements prepared in accordance with a fair presentation framework, 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, in all material respects, the financial position of the entity and of its financial performance and its cash flows or if applicable are not true and fair, 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).”
- ▶ In paragraph 34 f(ii) we believe the wording should be “that the financial statements have statements has not been prepared”
- ▶ In paragraph 49a we suggest the addition of a potential plural as follows “Draw attention to the note(s)”

9. Do you agree with the proposed effective date? If not, please explain why not.

Given the limited scope of the revisions to NZ SRE 2410, we consider the proposed effective date to be appropriate.

We welcome the opportunity to contribute to the improvement of Auditing and Assurance Standards that will continue to drive the quality and consistency of such services in New Zealand. We would be pleased to discuss our comments with members of the New Zealand Auditing and Assurance Standards Board and its staff. Should you wish to do so, please contact Simon Brotherton (simon.brotherton@nz.ey.com or on 0272 943 421).

Yours sincerely



Simon Brotherton
Partner
New Zealand Assurance Professional Practice Director

Hi Misha,

From the FMA's point the review engagements would only fall under our mandate if they are required by the FMC Act or FMC regulations. We haven't had any reviews that are captured under these requirements. When commenting on the standard we focused on the reviews that may be performed for half year accounts in between two audits. We have the current comments:

Material Uncertainty:

In the instances the auditor notes that previous audits have resulted in significant concerns regarding to going concern, or notes that the entity has significant financial difficulties I believe that paragraph 20 is insufficient. There is only limited requirement to assess the going concern position of the entity. Paragraph 20 only indicates that in certain circumstances the auditor must make enquires but it is uncertain how robust procedures need to be to conclude on this assessment.

Going concern is a fundamental principle for any set of financial statements. I would like to see more in this paragraph. Such as the requirement to review the entities cash-flow forecast for at least 12 months after providing the opinion and make a number of assessment of the reasonability of the assumptions made in the forecasts. Also the procedures that need to be performed when there is an indication of uncertainty should be expanded and may go towards procedures similar to ISA (NZ) 570.

Happy to discuss further.

Kind Regards,
Jacco

Dear Misha,

One of my colleagues has finally had a chance to consider the proposed changes to the format and content of the auditor's interim review report.

We are generally supportive of the proposed amendments and have no specific comment on the questions raised, so we do not see any value in responding to the nine specific questions in the Invitation to Comment.

On the particular question of the going concern section, the Reserve Bank is comfortable with either option. Option one appears clearer to us about what the auditor's reporting obligation is if they identify any material uncertainty related to going concern. This is more consistent with being useful for the users of the financial statements/audit report. We are therefore comfortable with the NZAuASB's preferred option in the exposure draft.

I hope this is helpful.

Kind regards,
Jeremy

Hi Misha – thanks for this – makes life much easier.

We are sending an email shortly to the NZCGF with a note about the blog and survey. The email will come from Holly Wong and I've asked her to cc you in.

Also, FYI, I had a chat with our FD and one of the Senior Accountants here at the Fund. They resoundingly support Option 1 as an investor. It is more robust and requires them to formally perform some procedures.

They also acknowledge that it increases the requirements of auditors. We also discussed the merits of whether a management attestation might be needed given the difficulties in recognising if a client is being evasive.

They expected that most auditors would prefer option 2.

Katie

Key messages from targeted outreach with broader financial reporting supply chain

Notes from XRB Board meeting (8/8)

Majority of members expressed a preference for option 1.

Comments in favour of Option 1:

- Option 2 leaves it hanging, makes you assume going concern is ok. Option 2- “is that all it says” – is there a conclusion. Likes option 1, negative wording. Going concern review is justified, always a risk, option 1 frames it enough.
- Option 1 wording is very clear that this is negative assurance. Option 2 really confusing, expect the auditor to do more than make enquiries, is misleading, made enquiries but does not explain what it is. A review is more than enquiry- it could be misleading. If you made enquiries- it could mean you did a lot of work.
- Preference for option 1 as Option 2 could be read one way or another.

Comments in favour of option 2:

- Option 1 is vague and passive, does not list specific procedures so unclear what auditor has done. Option 1 sounds more like I stumbled across it, so wonder if you actively looked for it, did you actively go out and ask? Will I take away an inappropriate level of comfort? Took more comfort from option 2, but maybe that is the risk, taking too much comfort from option 2. Option 1 may be safer and does like the health warning statement- people think it's a guarantee as an audit report. Maybe combine somehow. Do you think it is too soft i.e., we do nothing only if you stumble across something.
- Option 1 may confuse user. Important for managements responsibilities to be clear too. Like option 2 as it highlights the judgement and distinguishes it from an audit. Agrees re health warning. Also suggested combining with option 2.

An alternative view was not supportive of either option, thinks both options could imply more assurance and widen the expectation gap, and there is already a misconception on the guarantee. No-one understands the difference between an audit and a review except for the auditors. Still wants something in the report – did not support the do nothing option, rather suggested a cross reference back to the previous audit report (akin to the accounting policies – this is condensed so financial statements don't include all accounting policies rather cross refers to annual report.)

Notes from NZASB Board meeting (11/09)

The NZAuASB were asked to consider the two options identified in the invitation to comment and to provide feedback in their role as preparer, user, auditor, etc, rather than as a technical board.

The majority of NZAuASB members present (six members) were more supportive of option 1 as the basis for the report, with one member preferring option 2.

Suggestions and comments on option 1 included:

- Support for the language in the first sentence that reflects the limited (negative) assurance. This is especially useful to distinguish the review from the audit.
- In order to improve the communicative value, explore use of bullet points, shorter sentences and more white space to assist the reader. One member noted that this option appears too legalistic so if this approach is to be retained would encourage the NZAuASB to relook at the layout to improve readability.

- While preferring option 1, suggested the wording should avoid the “if” or “may” approach which is too general to be useful. The user wants to know if the auditor has found anything.
- Given this is an assurance engagement, this language is consistent with the auditor’s responsibility.
- Very supportive of the last sentence of option 1, regarding future events.
- This runs the risk that it appears like a second opinion. Suggestion to rather incorporate into preceding paragraphs in the report more generally.

An area of possible confusion identified by option 1 is whether the auditor is required to provide a “mini-conclusion” on going concern. Just like for reporting of key audit matters, if the report is drawing attention to going concern, it is important that the report closes the matter out. Two members suggested that option 1 may need to go even further, i.e. based on the procedures performed nothing came to our attention related to going concern. Staff noted that the auditor is not required to provide mini-opinions and that such reporting does not even happen in the audit report.

One comment noted that the going concern responsibility should tie back to last annual audit report, given that the auditors’ conclusion at year end reaches beyond the 6-month interim review period. What is important to the user is whether anything has changed since year end.

Specific comments on option 2 included:

- This option provides information on the procedures rather than the responsibilities.
- This is not telling the user whether the auditor found anything.
- From a communicative value, the use of bullet points and shorter sentences is an advantage as it is more user-friendly language.

Feedback suggested caution at the level of emphasis in the review report given to going concern, especially where the auditor has no concerns. Either option 1 or 2 may overly emphasize going concern. One member reiterated that if this level of emphasis is to be given to going concern, it is important that the report closes the matter out to clearly indicate that the auditor did not find anything.

Notes from XRAP meeting (19/09)

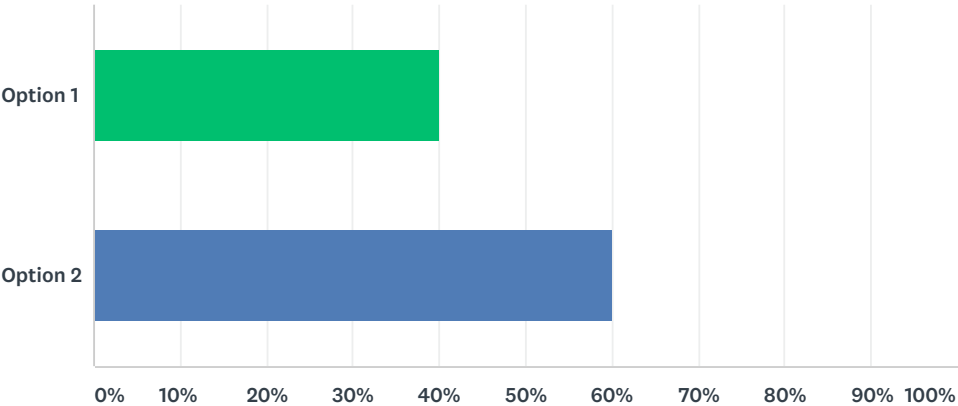
Generally a lack of support for either option was expressed:

- Did not like either option, found them both difficult to read, never mind understand. Going concern is important. Option 1: first sentence is 65 words long, didn’t get what it was saying as was explained in the presentation.
- Agree didn’t really like either. But preferred sentiment that option 1 was trying to convey – clearer statement. Option 2 seems to just be pushing back to TCWG.
- Questioned what problem we are trying to solve. Why drag out going concern specifically?
- Thinks this is saying, “not really looking and not found anything” – gives reader nothing (no comfort at all). Not adding any value so why saying anything.
- Option 1 specific comment: relook at “Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of the going concern basis of accounting by those charged with governance is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt” Is this not an OR?

- Option 2 specific comment: option 2 Relook at “We make enquiries whether those charged with governance have changed their assessment of the entity’s ability to continue as a going concern.” Unclear what the change refers to – changed from when or from what? Had a material uncertainty and haven’t changed my mind?
- Would prefer much simpler wording.
- Directors are making an assessment on going concern – shareholders want auditors to validate that. How does the solvency test fit into this? Only when making a distribution. Option 2 focus is on Focus on what done – then there is a matter of inference.
- When asked whether anything from either option 1 or 2 was especially useful – not much enthusiasm for any parts really.
- Criticism of the second sentence in option 1 - not really saying much as if you had a MU would report it.

Q1 Which option do you prefer: Option 1 or Option 2?

Answered: 10 Skipped: 0



ANSWER CHOICES		RESPONSES	
Option 1		40.00%	4
Option 2		60.00%	6
TOTAL			10

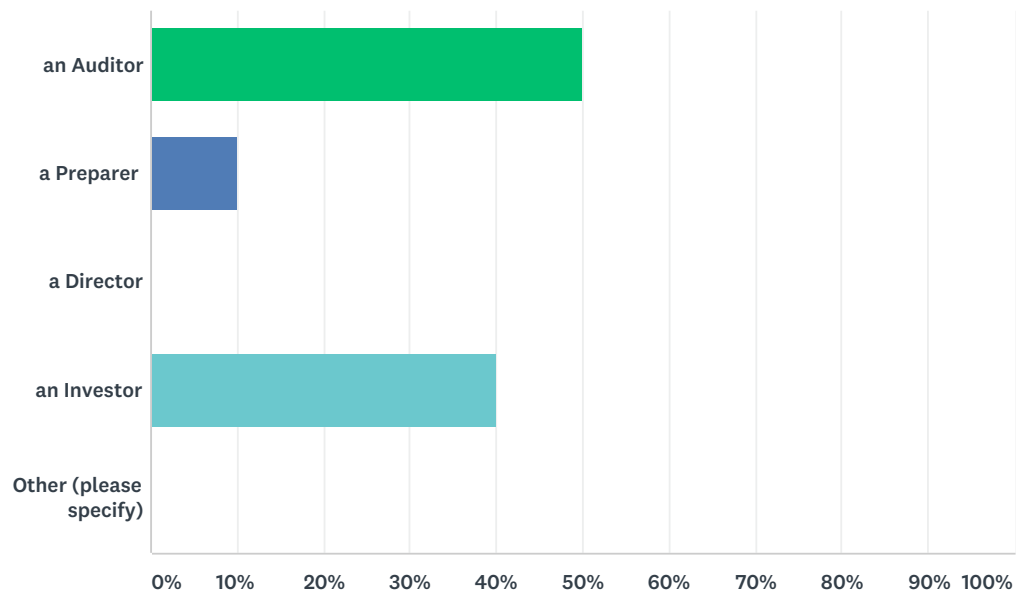
Q2 Please tell us why...

Answered: 10 Skipped: 0

#	RESPONSES	DATE
1	We consider this emphasizes the nature of the work performed and places the responsibility on TCWG.	9/12/2019 6:43 AM
2	History has showed that those charged with governance may not always be independent, or subjective when determining the going-concern of a company. It is our opinion that a relatively independent third-party, such as an external auditor should be tasked with determining the going-concern abilities of the company at the interim reviews.	9/4/2019 11:07 PM
3	Auditors should be required to draw attention in their review report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our conclusion, if they have issues with regard to going concern.	8/29/2019 2:11 AM
4	Because this requires the auditor to notify shareholders of anything identified in their review which casts significant doubt on the going concern assumption rather than just make enquiry of the Board (governance team) as to whether a change in view is needed.	8/23/2019 3:23 AM
5	More succinct and doesn't end with a disclaimer like option 1 does.	8/23/2019 2:28 AM
6	We don't conclude, this suggests a separate and distinct opinion, which is not the case and exposes us significantly if the report says it this way	8/21/2019 9:37 AM
7	Clearly states that it is management (and directors) who are responsible for the going concern assessment first - and then the auditor challenges whether that basis is appropriate based on their enquiries and review procedures.	8/21/2019 5:11 AM
8	Option 1 is direct and more informative to investors who are reviewing the financial statements. Option 2 is more nuanced and less clear.	8/20/2019 8:59 AM
9	Option 1 is virtually the same as ISA 700, which is for an audit. This is only a review engagement. much better to stick with the wording in option 2 which is better aligned to a review engagement.	8/15/2019 12:26 PM
10	Option 1 goes beyond the scope of a review engagement and it is important that users clearly understand what an auditor does in relation to going concern. Option 2 better describes the auditors responsibility in respect of their going concern obligations for an interim review.	8/15/2019 6:26 AM

Q3 Now tell us about you. Are you:

Answered: 10 Skipped: 0



ANSWER CHOICES		RESPONSES	
an Auditor		50.00%	5
a Preparer		10.00%	1
a Director		0.00%	0
an Investor		40.00%	4
Other (please specify)		0.00%	0
TOTAL			10

#	OTHER (PLEASE SPECIFY)	DATE
	There are no responses.	

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 9.1

Meeting date: 24 October 2019

Subject: FMA QA review findings

Date: 18 October 2019

Prepared by: Peyman Momenan

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

1. The objective of this agenda item is for the Board to CONSIDER and PROVIDE FEEDABCK on:
 - a) Our analysis of FMA Quality Review Assessment Reports (QRAR) and related recommendations.

Background

2. In August 2019 the FMA provided us with access to their QRARs. We have analysed these reports to identify any areas where the standards may benefit from additional clarity, or areas where more guidance may be useful. Our detailed analysis is presented in Agenda item 9.2

Actions Required

3. For the Board to:
 - CONSIDER and DISCUSS the analysis of QRARs and the relevant recommendations;

Material Presented

9.1	Board meeting summary paper
9.2	Analysis of the FMA QRARs findings

Background

As part of the NZAuASB's activity plan in relation to the IAASB's audits of Less Complex Entities (LCE) discussion paper, we asked the FMA to allow us access to the FMA Quality Review Assessment Reports (QRAR). The FMA kindly agreed and allowed us access to the reports for 30 days.

The FMA provided us with all their QRARs since they started these reviews. However, given the limited time of access to reports, as well as the decreased relevance of older findings (especially those findings from the first few years of inspections), we focussed on QRARs from 2017 onwards. In total, we analysed 37 individual files from 10 firms (4 Big Four audit firms and 6 mid-tier audit firms).

Objective

While this information was useful in finalising the response to the LCE discussion paper, it also provided the opportunity for us to identify any areas where the standards may benefit from additional clarity, or areas where more guidance may be useful.

As part of our analysis we have identified certain issues relevant to the NZAuASB standard setting agenda and made recommendations to the Board as how to address these matters. The specifics of our recommendations are included in relation to related observations in the remainder of this Agenda item. However, they generally fall into one of the following categories.

- Collaboration with other key players in the financial reporting supply chain (e.g. the NZASB, the FMA, the professional bodies etc.) to address identified issues.
- Using awareness raising and promotional activities for recently approved standards (e.g. ISA (NZ) 315 (Revised) once approved, ISA (NZ) 540 (Revised)) as an opportunity to specifically address some of the observed issues to help better implementation of the new standards.
- Communicating our findings to the relevant task forces of the IAASB where practical.
- Engaging with audit firms to obtain better understanding of underlying factors that might contribute to the identified issues.

We seek feedback from board members on these recommendations to assist us determine whether and what priority to give to possible next steps following from our review.

Overall analysis

The table below gives some indication of which standards are more frequently mentioned in QRARs. For each ISA (NZ), we counted the number of files that have at least one relevant finding (in many instances a single file had more than one finding related to a specific ISA).

ISA (NZ) #	The ISA (NZ) title	Number of files with at least 1 finding traced back to the corresponding standard	% of total files analysed (total=37)
ISA (NZ) 330	The Auditor's Responses to Assessed Risks	19	51%
ISA (NZ) 700 (Revised)	Forming an Opinion and Reporting on Financial Statements	16	43%

ISA (NZ) 240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	15	41%
ISA (NZ) 500	Audit Evidence	14	38%
ISA (NZ) 540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	12	32%
ISA (NZ) 315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment	11	30%
ISA (NZ) 250 (Revised)	Consideration of Laws and Regulations in an Audit of Financial Statements	10	27%
ISA (NZ) 530	Audit Sampling	10	27%
ISA (NZ) 230	Audit Documentation	8	22%
ISA (NZ) 260 (Revised)	Communication with Those Charged with Governance	8	22%
ISA (NZ) 220	Quality Control for an Audit of Financial Statements	7	19%
ISA (NZ) 450	Evaluation of Misstatements Identified During the Audit	7	19%
ISA (NZ) 520	Analytical Procedures	5	14%
ISA (NZ) 570 (Revised)	Going Concern	5	14%
ISA (NZ) 560	Subsequent Events	4	11%
ISA (NZ) 505	External Confirmations	3	8%
ISA (NZ) 501	Audit Evidence – Specific Considerations for Selected Items	3	8%
ISA (NZ) 320	Materiality in Planning and Performing an Audit	2	5%
ISA (NZ) 550	Related Parties	2	5%
ISA (NZ) 265	Communicating Deficiencies in Internal Control to those Charged with Governance and Management	2	5%

In the remainder of this agenda item we have presented detailed findings relating to those standards with more than 4 findings, and some recommended actions, where relevant, for the Board's consideration.

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

Table 2 below, provides an overview of the number of times a finding has been included in relation to a specific requirement in the ISA (NZ) 330.

Table 2: ISA (NZ) 330		
Type of failure/oversight	Para	Number of times this para is mentioned
Auditor has failed to obtain appropriate and sufficient evidence that a material transaction/balance/disclosure is correctly and fairly treated in the entity's financial statements	6	12
No substantive procedure was performed on material balances	18	8
Failure to consider the implications of observed weaknesses in internal controls over reliability of evidence from test of controls	17	3

Table 2: ISA (NZ) 330		
Type of failure/oversight	Para	Number of times this para is mentioned
Failure to adequately consider how a test of controls must be designed and carried out	10	3
Significant deficiencies in auditor's test of operating effectiveness of controls	9	1
Failure to perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework	24	1
Failure to document consideration of a key disclosure appropriately	24	1
Failure to document how notes in the financial statements agreed to underlying accounting records	30	1
Significant deficiencies in audit testing to mitigate significant risks	Various paragraphs	1
The auditor failed to appropriately evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate after considering evidence	25	1
Failure to adequately document the work performed	28	1
Grand Total		33

The auditor's response to assessed risk is the most frequently mentioned ISA (NZ) in the QRARs, with paragraph 6 of ISA (NZ) 330 the most frequently mentioned. Paragraph 6 of ISA (NZ) 330 requires that "The auditor shall design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level." The high number of observations in relation to this paragraph is to be expected given the nature of the requirement.

Completeness and accuracy of revenue were one of the most commonly noted areas where reviewers concluded that auditors have not obtained adequate and appropriate audit evidence (e.g. inadequate cut-off testing).

Recommendation 1: The Board may want to investigate why ensuring completeness of revenue can be challenging in audit engagements and whether any of these challenges are affected by the requirements of ISAs (NZ).

Financial instruments (specially hybrid financial instruments¹) and accounting for share-based payments was another area where the reviewers had significant findings highlighting that auditors had failed to obtain sufficient appropriate evidence that a material transaction/balance/disclosure is correctly and fairly treated indicating these are challenging topics for auditors.

Recommendation 2: It may be worthwhile to discuss these findings with the NZASB as these findings may identify areas for additional collaboration between financial reporting requirements and the audit requirements.

¹ I.e. financial instruments demonstrating characteristics of both equity and liability instruments.

The second most frequently mentioned requirement in the QRARs is the requirement in paragraph 18 of ISA 330 that auditors must perform substantive procedures for all material class of transactions, account balance, and disclosure irrespective of their risk assessment. All of the findings in relation to this paragraph are for audits undertaken by the mid-tier firms, implying a methodology issue (or implementation of methodology by the firms). It may be reasonable to expect that these mid-tier firms have already taken measures to improve their audit methodologies and/or staff training to ensure compliance with this paragraph in their future audits. Given this, we do not believe that there is a need for the Board to take any specific actions in relation to this finding.

The third most common finding relates to performance of test of controls. In 3 different instances the audit firms identified weaknesses in controls selected for test of operating effectiveness of controls. The auditors concluded that controls were effective and relied on their control tests to reduce their audit risk. However, the FMA reviewer concluded that the auditors did not adequately consider the identified weaknesses when evaluating whether controls (and therefore evidence from testing them) are reliable. In another 3 instances, the FMA reviewer disagreed with how a test of control was designed and performed and, in another instance, the FMA reviewer concluded the performed control testing to be deficient.

Recommendation 3: The number of findings in relation to testing operating effectiveness of controls indicate that the relevant requirements are not well understood/executed by practitioners and there may be need for additional guidance/standard clarification on this matter. We recommend liaising with CAA NZ and CPA Australia to understand if they have any plans for education/guidance in these areas. We also recommend that the NZAuASB emphasises the control risk assessment requirements as part of raising awareness of ISA (NZ) 315 (Revised) when it is approved, together with the requirements in ISA (NZ) 330.

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

Table 3 below, provides an overview of the number of times a finding has been included in relation to a specific requirement in ISA (NZ) 700 (Revised)

Table 3: ISA (NZ) 700		
Type of failure/oversight	Para	Number of times this para is mentioned
A significant risk was not included in the KAM working paper for further consideration	9	1
Audit report did not identify the name of the engagement partner	46	1
Failure to properly evaluate accounting policy for a material non-recurring transaction	13	1
Failure to properly evaluate key disclosures in the financial statements	10	6
	11	2
	12	2
	13	8
Documentation	39	1
Grand Total		22

As evident in Table 3 above, the FMA reviewers mostly referred to ISA (NZ) 700 (Revised) when discussing a finding relating to a key disclosure (including a description of a key accounting policy

and its appropriateness in light of the applicable financial reporting framework). The relevant requirements are in paragraphs 10 to 13 of ISA (NZ) 700 (Revised). However, some of these findings also pertain to requirements in other standards (e.g. findings on disclosures about accounting estimates could also be linked to requirements in paragraphs 19 to 20 of ISA (NZ) 540). **This also links to findings in table 2 above.**

Recommendation 4: This may link to the failure of an entity to make required disclosures which may indicate a broader financial reporting supply chain matter. We recommend ongoing collaboration within the supply chain.

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

Table 4 below, provides an overview of the number of times a finding is included in relation to a specific requirement in the ISA (NZ) 240.

Table 4: ISA (NZ) 240		
Type of failure/oversight	Para	Number of times this para is mentioned
Failure to adequately assess and respond to a potential risk of fraud	17	1
Auditor not specifically asking finance team members for unusual activities relating to processing of journal entries	18	1
Auditor using letter of representation as a form of inquiry	22	1
Required procedures to address the default revenue recognition fraud risk were not performed	27	1
Inadequate overall response to the risk of fraud	29	1
Failure to appropriately address the fraud risk associated with use of journals	33	6
Tested journals were not agreed to the relevant supporting evidence	33	4
Failure to adequately evaluate the implications of a misstatement that may be indicative of fraud	36	2
Grand Total		17

The most frequently referred to requirement in ISA (NZ) 240 is Paragraph 33 which requires auditors to perform certain procedures to address the risk of management override of controls through the use of journals. In many cases the FMA reviewers were not satisfied with the level of work performed in this regard (e.g. very small sample, not covering the whole period, not ensuring completeness of journals, not agreeing journals to underlying accounting information etc).

During our outreach activities on the LCE project, practitioners told us they spend a lot of time to ensure that they meet the requirements in relation to the risk of inappropriate journals (as a requirement in the ISAs (NZ)). However, they see very little value for these time-consuming procedures. The practitioners report that they have very rarely (if ever) come across an inappropriate journal via the prescribed journal testing procedures in the standard (where there have been material misstatements, these were identified by other audit procedures, not journal testing).

Recommendation 5: This is an area where application guidance may be helpful. We recommend an inhouse research project to gather specific information from audit firms about their views on this

requirement, as well as reaching out to other NSSs to see if they may have issued guidance on this subject. The information gathering from firms could include, for example

- what are the practical challenges in applying this requirement in practice?
- Is this an effective and efficient method for achieving the prescribed objectives?
- Are there any alternative procedures that can potentially satisfy the same objective more effectively/efficiently? How use of technology is affecting this requirement?

ISA (NZ) 500 Audit Evidence

Table 5 below, provides an overview of the number of times a finding is included in relation to a specific requirement in the ISA (NZ) 500.

Table 5: ISA (NZ) 500		
Type of failure/oversight	Para	Number of times this para is mentioned
Inadequate evidence obtained to support conclusion	6	6
Failure to evaluate the appropriateness of management expert's work as audit evidence for the relevant assertion	8	10
Inadequate support for obtaining audit evidence about accuracy and completeness of the information used in performance of audit procedures (e.g. AP, Sampling, etc)	9	9
Auditor failed to adequately consider conflicting information	11	1
	Grand Total	26

The FMA reviewers were very likely to conclude that the auditors have not met the requirements included in Paragraph 8 of ISA (NZ) 500 in almost all files involving auditors relying on management expert's work as audit evidence. Specifically, that the audit team did not document:

- its assessment regarding the expertise of the audit team to evaluate the work of management's experts.
- whether the assumptions and methods used by the management's expert were appropriate and reasonable.
- how the audit team validated the source data used by the experts.

The first specific finding may indicate that there is an implied expectation by the FMA for audit firms to engage their own expert when management experts are involved.

The application paragraphs A35 to A49 of ISA (NZ) 500 provide guidance for auditors as how to meet the requirements included in paragraph 8. However, this application guidance can be difficult to apply in practice. The AUASB has released an additional guidance statements, *Guidance Statement GS 005 Using the Work of a Management's Expert*, to supplement the standard. GS 005 is currently under revision to be brought up to date.

Recommendation 5: The importance and prevalence of findings in relation to using the work of management expert indicates a potential need for the NZAuASB to undertake some targeted activities in this area (for example, undertaking research to understand practical challenges faced by auditors in applying paragraph 8). This is also a project we have identified to collaborate on with

Australia and Canada to use as an example of how collaboration can work to the other NASSs . We are currently observing the AUASB project to update GS 005 and believe that there may be a need for either developing a similar guidance or adopting GS 005.

Another common finding relates to requirements included in paragraph 9 of ISA (NZ) 500. The paragraph states that 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)

In 25% of all analysed cases, the reviewers were not satisfied that auditors had performed adequate procedures to ensure completeness and accuracy of the underlying information (particularly when using audit sampling to select a sample for substantive test of details and when applying substantive analytical procedures).

Paragraph A51 of ISA (NZ) 500 describes the following methods to achieve the objectives of paragraph 9:

- (a) Obtaining audit evidence about the accuracy and completeness of information prepared by the entity 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
- (b) 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
- (c) in some instances the auditor may determine that additional audit procedures are needed.

In many instances, obtaining audit evidence about completeness of information is potentially only possible by testing controls (option b above). Also, performing substantive analytical procedures often uses information from systems other than the entity's core accounting system (e.g. general ledger).

This finding may indicate that there is a need for further clarity on what controls are relevant to the audit. This is also relevant to the LCE discussion as some practitioners pointed out that in a very simple engagement controls relevant to the audit may be limited to those over the default risks of fraud (i.e. revenue recognition and management override of controls). However, if audit sampling is used in LCE audits the auditors will still need to ensure that they meet the requirements in paragraph 9 of ISA (NZ) 500, which is to assess controls over completeness of key financial cycles (e.g. sales and receipts, purchases and payments etc) before they can select a sample of transactions for test of details.

Recommendation 6: We recommend raising this matter in the first instance with the IAASB ISA 315 (Revised) Task Force to consider clarifying it as part of the implementation material they are developing on the newly approved ISA 315 (Revised), for example as a FAQ.

Finally, the reviewers concluded in 6 instances that auditors failed to obtain adequate evidence to support their conclusions (that a balance or class of transaction is not materially misstated). Such findings can also be classified as failing to meet the requirement of paragraph 6 of ISA (NZ) 330 (to design and perform further audit procedures whose nature, timing and extent are based on and

responsive to the assessed risk of material misstatement at the assertion level). These findings relate to different classes of transactions and account balances (e.g. investment properties, livestock inventory, intangible assets, etc.).

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

Table 6 below, provides an overview of the number of times a finding is included in relation to a specific requirement in the ISA (NZ) 540.

Table 6: ISA (NZ) 540		
Type of failure/oversight	Para	Number of times this para is mentioned
Failure to ensure that related disclosures in the financial statements are adequate	6	2
Failure to adequately obtain an understanding of all relevant aspects of an accounting estimate	8	2
Failure to adequately challenge management assumptions	12	2
Failure to demonstrate an adequate level of professional scepticism	12	2
	13	2
Failure to adequately address estimation uncertainty	15	1
Failure to evaluate the adequacy of the disclosure of significant accounting estimation uncertainty in the financial statements	20	2
Failure to ensure adequacy of disclosure in the financial statements for key accounting estimates	19 and 20	3
Significant deficiencies in auditing accounting estimates	Various paragraphs	3
Grand Total		19

Generally, the reviewers were of the view that auditors do not adequately challenge management estimates and instead try to provide evidence to support management estimates. This is not the intention of the standard, which requires audit teams to develop a point estimate or a range of estimates to evaluate the reasonableness of the management estimate. The reviewers also concluded that auditors do not demonstrate adequate professional scepticism in assessing these estimates. Overall findings related to requirements in paragraphs 8 to 15 can be grouped under this concern.

The other common finding relates to the adequacy, accuracy and presentation of relevant disclosures in the financial statements. In 2 instances, the reviewers concluded the financial statements were significantly deficient in this regard, and that the auditors therefore had not met the objective of ISA (NZ) 540 of the standard. In 5 instances the reviewers concluded that the relevant disclosures in the audited entity's financial statements were inadequate or inaccurate and that the requirements in paragraphs 19 to 20 of the Standard were not met.

In 3 instances, the reviewers noted findings against numerous requirements of the standard. They consequently concluded that the auditors have failed to comply with ISA (NZ) 540.

Overall, the requirements of ISA (NZ) 540 remain one of the most challenging requirements to be met by auditors.

Recommendation 7: The revised ISA (NZ) 540 becomes effective for the audits of financial statements for periods beginning on or after 15 December 2019. We will conduct active awareness raising, including writing articles and webinars, etc. We recommend monitoring the FMA's review findings against the requirements of the new standard to see if the above findings continue to be raised, and if further guidance may be necessary.

ISA (NZ) 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment

Table 7 below, provides an overview of the number of times a finding is included in relation to a specific requirement in the ISA (NZ) 315.

Table 7: ISA (NZ) 315		
Type of failure/oversight	Para	Number of times this para is mentioned
Auditor relied on controls operating effectiveness despite weak control environment	14	1
Failure to adequately understand key business processes	11	2
Failure to adequately understand key financial reporting requirements applicable to material balances	11	3
Failure to properly perform planning analytical procedures	6	3
Inadequate support for why risk was assessed lower than high	15	1
	25	1
Inadequate understanding of material components of the entity's financial statements could have prevented them from identifying a risk of material misstatement.	25	2
Information from prior years affecting current year audit are not adequately supported	9	1
No documentation of "what can go wrong" when assessing risk of material misstatement	26	1
no/inadequate evaluation of design of controls relevant to audit	12	3
	13	1
	29	2
Grand Total		21

Not obtaining an adequate understanding of particular aspects of the audited entity (e.g. some of the key financial reporting requirements) is the most prevalent type of finding relating to the requirements of ISA (NZ) 315. In total 11 of 21 findings relate to an inadequate understanding obtained of the entity and its environment. The nature of what needed to be better understood by the auditors varied between files and included a wide variety of matters.

For example, in one instance the reviewers concluded that the audit team did not document the understanding of the control environment, including the identification of key controls of all revenue streams. In another example, the 'understanding the entity' section of the audit file did not make

reference to the complexities of Entity A's business, in particular the different customer contracts that are in place, the terms of such arrangements and the exposure Entity A has to very few customers with large order expectations.

The second most frequently noted issue relating to ISA (NZ) 315 is to do with auditors failing to adequately identify and/or evaluate the design of controls relevant to audit (6 out of 21 findings relate to this issue).

For example, in one instance the FMA reviewer noted that the audit team performed walkthroughs of financial processes; however, the walkthroughs did not provide information on the key controls that are in place or relevant to the audit, but were rather a process description. In another example, the audit team performed a walkthrough over loan approval controls but concluded that the implementation was effective without documenting the walkthrough performed. Another auditor did not consider whether the entity had designed and implemented controls for significant risks arising from non-routine or judgement matters relating to two significant risks: investment property and acquisition accounting.

Recommendation 8: We recommend raising this matter in the first instance with the IAASB ISA 315 (Revised) Task Force to consider clarifying as part of the implementation material they are developing on the newly approved ISA 315 (Revised).

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

Table 8 below, provides an overview of the number of times a finding is included in relation to a specific requirement in ISA (NZ) 250 (Revised).

Table 8: ISA (NZ) 250 (Revised)		
Type of failure/oversight	Para	Number of times this para is mentioned
Failure to appropriately address risk of non-compliance with relevant laws and regulation	13	7
Failure to appropriately evaluate a known instance of non-compliance with laws and regulations (NOCLAR)	12	1
Inadequate understanding of relevant regulatory framework and how the entity complies with it	12	4
Failure to inspect correspondence with the relevant licensing or regulatory authorities	14	4
Failure to report an identified instance of NOCLAR to TCWG	16	1
Grand Total		17

Inadequate understanding of risk of NOCLAR relevant to audit (as required by Paragraph 12 of the standard) and inadequate response to these risks (as required by Paragraph 13) are the most common types of noted issues relating to ISA (NZ) 250 (Revised). About 27% of all reviewed files had a finding relating to these two requirements.

Recommendation 9: The prevalence of needed improvement in relation to this standard may indicate a need for further investigation of the underlying causes for these observations.

Also, in four instances the audit teams did not inspect correspondence with the relevant licensing or regulatory authority (being the exchange listing organisation or the FMA). We do not believe this to be a matter that requires any actions to be taken by the Board.

ISA (NZ) 530: Audit Sampling

Table 9 below, provides an overview of the number of times a finding is included in relation to a specific requirement in the ISA (NZ) 530.

Table 9: ISA (NZ) 530		
Type of failure/oversight	Para	Number of times this para is mentioned
Failure to appropriately investigate nature of observed division and evaluate their possible effect	12	2
Inappropriate sample selection method	8	3
Lack of appropriate basis to support the selected sample size	7	8
Grand Total		13

As Table 9 above shows in 8 instances (2 instances relating to samples selected for test of controls and 6 for substantive test of details) the reviewers were not satisfied that the audit teams have had an appropriate basis for the selected sample size.

Recommendation 10: The frequency and significance of findings relating to basis for the selected sample size indicate that there may be a need to better understand audit firms' methodologies for selecting sample sizes especially when the team decides to use non-statistical sampling method (i.e. use judgement). This would also be relevant to the second most frequently noted issue relating to audit sampling: lack of support for the applied sampling method. We recommend liaising with CAANZ and CPA Australia to understand if they have any plans for education/guidance on sampling.

ISA (NZ) 230 Audit Documentation

All the findings relating to ISA (NZ) 230 relate to Paragraph 8 which requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:

- (a) The nature, timing, and extent of the audit procedures performed to comply with ISAs (NZ) and applicable legal and regulatory requirements;
- (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.

This requirement is very broad and most potential audit issues are very likely to have some documentation aspect. We therefore believe that it is best to address documentation challenges as part of addressing issues identified relating to others ISA (NZ).

ISA (NZ) 260 Communications with Those Charged with Governance

7 of 8 instances of noted issues relating to ISA (NZ) 260 relate to Paragraph 17. This paragraph requires the auditors of FMC reporting entities considered to have a higher level of public accountability, to communicate with those charged with governance (TCWG):

- a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
 - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgement, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
 - (ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A29–A32)

In all of these 7 instances, the audit firm provided non-assurance services to the entity. In all but one case the auditors did communicate their evaluation of their independence (including on non-assurance services) to TCWG. However, in all cases the FMA reviewers were not satisfied that the auditors have adequately considered the independence implications of performing non-assurance services (a requirement that more closely relates to Paragraph 11 of ISA (NZ) 220). Therefore these findings are not really a failure to communicate to TCWG on independence but inadequate (in reviewers view) evaluation of independence implications of providing other services (which in turn would affect their communication to TCWG).

Recommendation 11: The performance of non-assurance services (NAS) is an active project of the IESBA. We recommend that we obtain a better understanding of both the practitioners and the FMA expectations in relation to the independence implications of providing non-assurance services to an audit client. E.g. what is their view on how significance of this threat should be evaluated? Can there be any effective safe-guards? This will also help inform the development of the New Zealand submission on the NAS exposure draft once it is issued.

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

Table 10 below, provides an overview of the number of times a finding is included in relation to a specific requirement in the ISA (NZ) 220.

Table 10: ISA (NZ) 220		
Type of failure/oversight	Para	Number of times this para is mentioned
Client accepted before required acceptance procedures were completed	12	2
Failure to properly document the consultation activities	24	3
Not all members of the audit team signed independence declaration	11	2
Grand Total		7

We believe that the nature of the above findings indicates that these are issues that can be expected to be appropriately addressed in future audits and that do not indicate any audit standard setting issue.

ISA (NZ) 450 Evaluation of Misstatements Identified During the Audit

All the findings related to this standard relate to inadequate evaluation of uncorrected misstatements that were not clearly trivial. In 2 instances auditors failed to include identified errors that were not clearly trivial (but were less than performance materiality) in their unadjusted differences schedule.

In 3 instances the auditors identified 'potential' or 'soft' misstatements that were not clearly trivial (and in 2 instances greater than performance materiality). The following is an example of the issues noted:

To test the completeness of revenue the audit team obtained a monthly earned revenue report from the sales booking system and reconciled this back to the Trial balance. From our review we noted the following:

- The audit team identified a reconciling difference of \$29k, which was considered reasonable. There is no explanation of why a difference exceeding two times the materiality was considered acceptable.
- Further, the revenue amount as per Trial balance used in the working paper (REV-100) did not reconcile back to the financial statements (difference of \$3.4k).

Para A6 of ISA (NZ) 450 states that "to assist the auditor in evaluating the effect of misstatements accumulated during the audit and in communicating misstatements to management and those charged with governance, it may be useful to distinguish between factual misstatements, judgemental misstatements and projected misstatements.

- Factual misstatements are misstatements about which there is no doubt.
- Judgemental misstatements are differences arising from the judgements of management including those concerning recognition, measurement, presentation and disclosure in the financial statements (including the selection or application of accounting policies) that the auditor considers unreasonable or inappropriate.
- Projected misstatements are the auditor's best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn. Guidance on the determination of projected misstatements and evaluation of the results is set out in ISA (NZ) 530.

We consider that this is an implementation, rather than an issue in the standards and that no further action is needed.

ISA (NZ) 520 Analytical Review

All noted issues relating to ISA (NZ) 520 are in relation to the Four Step model prescribed in Paragraph 5 of this standard. These four steps are:

- a) Determining the suitability of particular substantive analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions;

- b) Evaluating the reliability of data from which the auditor's expectation of recorded amounts or ratios is developed, taking account of source, comparability, and nature and relevance of information available, and controls over preparation;
- c) Developing an expectation of recorded amounts or ratios and evaluate whether the expectation is sufficiently precise to identify a misstatement that, individually or when aggregated with other misstatements, may cause the financial statements to be materially misstated; and
- d) Determining the amount of any difference of recorded amounts from expected values that is acceptable without further investigation as required by paragraph 7.

The majority of noted issues relates to steps (b) and (c). The issues relate to step (b) are already addressed under issued relating to ISA (NZ) 500.

Determining how precise an analytical procedure should be can be challenging matter under certain circumstances. In light of new focus on use of Data Analytics and that similar considerations may be relevant in their use to obtain audit evidence.

Recommendation 12: Given the above, it may be worthwhile to obtain an understanding of how audit firms are using substantive analytical review procedures in their engagements and what is their view about their future relevance to audit.

ISA (NZ) 570 (Revised) Going Concern

Table 11 below, provides an overview of the number of times a finding is included in relation to a specific requirement in the ISA (NZ) 570.

Table 10: ISA (NZ) 570		
Type of failure/oversight	Para	Number of times this para is mentioned
Auditor's work over the going concern assumption was limited and placed reliance on management assumptions and judgements without appropriate testing.	12	3
Failure to evaluate the reliability of projected future cashflows	12	1
Failure to adequately evaluate the feasibility of management future plans	16	2
Grand Total		6

The above findings are mostly related to how auditors evaluated the projected information, planned actions, expected events, etc. The nature of challenges experienced in relation to going concern are very similar to those discussed under accounting estimates.