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Chief Executive
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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.



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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."~~



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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.



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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