

New Zealand Auditing and Assurance Standards Board

MEETING PACK

for

NZAuASB Meeting - SUPPLEMENTARY

Wednesday, 8 October 2025

9:00 am (NZDT)

Held at:

Generator Britomart

Level 10/11 Britomart Place, Auckland Cbd, Auckland, Auckland, 1010, NZ

INDEX

Cover Page

Index

Agenda

Attached Documents:

4.1 a	Draft ISA (NZ) 200 version 2025.docx.....	7
4.1 b	Draft ISA (NZ) 210 version 2025.docx.....	48
4.1 c	Draft ISA (NZ) 220 version 2025.docx.....	80
4.1 d	Draft ISA (NZ) 230 version 2025.docx.....	130
4.1 e	Draft ISA (NZ) 250 version 2025.docx.....	151
4.1 f	Draft ISA (NZ) 260 (Revised) version 2025.pdf.....	175
4.1 g	Draft ISA (NZ) 265 version 2025.docx.....	210
4.1 h	Draft ISA (NZ) 300 version 2025.docx.....	229
4.1 i	Draft ISA (NZ) 315 (Revised 2019) version 2025.docx.....	250
4.1 j	Draft ISA (NZ) 330 version 2025.docx.....	374
4.1 k	Draft ISA (NZ) 450 version 2025.docx.....	403
4.1 l	Draft ISA (NZ) 500 version 2025.docx.....	424
4.1 m	Draft ISA (NZ) 505 version 2025.docx.....	451
4.1 n	Draft ISA (NZ) 510 version 2025.docx.....	468
4.1 o	Draft ISA (NZ) 530 version 2025.docx.....	488
4.1 p	Draft ISA (NZ) 540 (Revised) version 2025.docx.....	510
4.1 q	Draft ISA (NZ) 550 version 2025.docx.....	579
4.1 r	Draft ISA (NZ) 560 version 2025.docx.....	613
4.1 s	Draft ISA (NZ) 580 version 2025.docx.....	631
4.1 t	Draft ISA (NZ) 600 (Revised) version 2025.docx.....	657
4.1 u	Draft ISA (NZ) 610 (Revised 2013) version 2025.docx.....	735

—Continued—

4.1 v	Draft ISA (NZ) 700 (Revised) version 2025.docx.....	762
4.1 w	Draft ISA (NZ) 701 version 2025.docx.....	826
4.1 x	Draft ISA (NZ) 705 (Revised) version 2025.docx.....	857
4.1 y	Draft ISA (NZ) 706 (Revised) version 2025.docx.....	893
4.1 z	Draft ISA (NZ) 710 version 2025.docx.....	918
4.1 aa	Draft ISA (NZ) 720 (Revised) version 2025.docx.....	946
4.1 bb	Draft ISA (NZ) 800 (Revised) version 2025.docx.....	1000
4.1 cc	Draft ISA (NZ) 805 (Revised) version 2025.docx.....	1033
4.1 dd	Draft ISA (NZ) 810 (Revised) version 2025.docx.....	1071
4.2 a	4.2 Amendments to assurance standards.docx.....	1107

AGENDA

NZAUASB MEETING - SUPPLEMENTARY

Name:	New Zealand Auditing and Assurance Standards Board
Date:	Wednesday, 8 October 2025
Time:	9:00 am to 5:00 pm (NZDT)
Location:	Generator Britomart, Level 10/11 Britomart Place, Auckland Cbd, Auckland, Auckland, 1010, NZ
Committee Members:	Graeme Pinfold (Committee Chair), Darby Healey, Doug Niven, Michael Bradbury, Rebecca Palmer, Richard Kirkland, Todd Beardsworth, Vasana Vanpraseuth
Attendees:	Anna Herlender, Bruce Mcniven, Dawn Bowden, Karen Griffin, Karen Tipper, Lisa Thomas, Misha Pieters, Sharon Walker, Susan Johnstone, Thinus Peyper, Wendy Venter

1. Standing items (PRIVATE)
2. Board Management (PUBLIC)
3. Meeting with heads of audit (PRIVATE)
4. Reissue of ISAs (NZ) and conforming amendments (PUBLIC)

4.1 SUPPLEMENTARY: ISAs (NZ) repealed and reissued 9:00 am (10 min)

For Decision

Supporting Documents:

4.1.a	Draft ISA (NZ) 200 version 2025.docx	7
4.1.b	Draft ISA (NZ) 210 version 2025.docx	48
4.1.c	Draft ISA (NZ) 220 version 2025.docx	80
4.1.d	Draft ISA (NZ) 230 version 2025.docx	130
4.1.e	Draft ISA (NZ) 250 version 2025.docx	151
4.1.f	Draft ISA (NZ) 260 (Revised) version 2025.pdf	175
4.1.g	Draft ISA (NZ) 265 version 2025.docx	210
4.1.h	Draft ISA (NZ) 300 version 2025.docx	229
4.1.i	Draft ISA (NZ) 315 (Revised 2019) version 2025.docx	250
4.1.j	Draft ISA (NZ) 330 version 2025.docx	374
4.1.k	Draft ISA (NZ) 450 version 2025.docx	403
4.1.l	Draft ISA (NZ) 500 version 2025.docx	424
4.1.m	Draft ISA (NZ) 505 version 2025.docx	451
4.1.n	Draft ISA (NZ) 510 version 2025.docx	468

Supporting Documents:

4.1.o	Draft ISA (NZ) 530 version 2025.docx	488
4.1.p	Draft ISA (NZ) 540 (Revised) version 2025.docx	510
4.1.q	Draft ISA (NZ) 550 version 2025.docx	579
4.1.r	Draft ISA (NZ) 560 version 2025.docx	613
4.1.s	Draft ISA (NZ) 580 version 2025.docx	631
4.1.t	Draft ISA (NZ) 600 (Revised) version 2025.docx	657
4.1.u	Draft ISA (NZ) 610 (Revised 2013) version 2025.docx	735
4.1.v	Draft ISA (NZ) 700 (Revised) version 2025.docx	762
4.1.w	Draft ISA (NZ) 701 version 2025.docx	826
4.1.x	Draft ISA (NZ) 705 (Revised) version 2025.docx	857
4.1.y	Draft ISA (NZ) 706 (Revised) version 2025.docx	893
4.1.z	Draft ISA (NZ) 710 version 2025.docx	918
4.1.aa	Draft ISA (NZ) 720 (Revised) version 2025.docx	946
4.1.bb	Draft ISA (NZ) 800 (Revised) version 2025.docx	1000
4.1.cc	Draft ISA (NZ) 805 (Revised) version 2025.docx	1033
4.1.dd	Draft ISA (NZ) 810 (Revised) version 2025.docx	1071

4.2 SUPPLEMENTARY: Amending standard

9:10 am (10 min)

For Decision

Supporting Documents:

4.2.a	4.2 Amendments to assurance standards.docx	1107

5. Conforming amendments review engagements (PUBLIC)
6. Going concern (PUBLIC)
7. Amendment to NZ SAE 1 (PRIVATE)
8. Sustainability consultation (PUBLIC)
9. Service performance information (PUBLIC)
10. Technology (PUBLIC)
11. Upcoming Post implementation reviews (PUBLIC)
12. Modified audit reports (PUBLIC)
13. ISA for LCE (PUBLIC)
14. Board management (PRIVATE)

15. Close Meeting

15.1 Close the meeting

Next meeting: No date for the next meeting has been set.



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 200

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand) ~~(ISA (NZ) 200)~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in February 2024 and incorporates amendments up to and including July 2023.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, **repeals** the current ISA (NZ) 200 issued by the External Reporting Board in July 2011.~~

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* issued by the International Auditing and Assurance Standards Board and **repeals** the current ISA (NZ) 200 issued by the External Reporting Board in July 2011 (as amended to July 2023).

The revision of ISA (NZ) 200 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 200

**OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR
AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH
INTERNATIONAL STANDARDS ON AUDITING (NEW ZEALAND)**

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1-2
An Audit of Financial Statements.....	3- ~~NZ~~ 11.19
Effective Date	~~10~~ NZ12.1
Overall Objectives of the Auditor	~~11-12~~ 13-14
Definitions	1 ~~53~~ -NZ1 ~~53~~ .1
Requirements	
Ethical Requirements Relating to an Audit of Financial Statements.....	164
Professional Scepticism	17 ~~5~~
Professional Judgement	18 ~~6~~
Sufficient Appropriate Audit Evidence and Audit Risk	19 ~~7~~
Conduct of an Audit in Accordance with ISAs (NZ)	18-2420-26
Application and Other Explanatory Material	
An Audit of Financial Statements.....	A1- ~~A13~~ NZ18.1
Definitions	A1 ~~94~~ -A16A21
Ethical Requirements Relating to an Audit of Financial Statements.....	~~A17~~ A22- A20A25
Professional Scepticism	~~A21~~ A26- A25A30
Professional Judgement	~~A26~~ A31- A30A35
Sufficient Appropriate Audit Evidence and Audit Risk	~~A31~~ NZA36.1- A57A62
Conduct of an Audit in Accordance with ISAs (NZ)	~~A58~~ -A83A63- A88

ISA (NZ) 200

Accompanying Attachment: Conformity to the International Standards on Auditing

ISA (NZ) 200

History of Amendments

Table of pronouncements – ISA (NZ) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*

This table lists the pronouncements establishing and amending ISA (NZ) 200.

Pronouncements	Date approved	~~Effective date~~ <u>Application</u>
International Standard on Auditing (New Zealand) 200	~~October 2011~~ 2025July	~~Periods beginning on or after 15 December 2026, refer commencement and application section~~ This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September 2011.
Professional and Ethical Standard 1 (Revised)	Jan 2013	Effective on 1 January 2014.
Professional and Ethical Standard 3 (Amended)	Jan 2013	Effective on 1 January 2014.
International Standard on Auditing (New Zealand) 610 (Revised 2013) <i>Using the Work of Internal Auditors</i>	April 2013	Effective for audits of financial statements for periods ending on or after 15 December 2013.
Amendments to the International Standards on Auditing (New Zealand) to Promote Improved Audit Quality	September 2013	Effective for audits of financial statements for periods ending on or after 31 December 2014.
Use of Management and those charged with governance	December 2013	Effective for audits of financial statements for periods beginning on or after 1 July 2014.
Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update)	February 2014	Effective for audits and assurance engagements for periods beginning on or after 1 April 2014.
Amendments to the International Standards on Auditing (New Zealand) to Describe the Responsibilities of Those Charged with Governance	September 2015	Effective for audits of financial statements for periods ending on or after 15 December 2016.
Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures	September 2015	Effective for audits of financial statements for periods ending on or after 15 December 2016.
Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting)	September 2015	Effective for audits of financial statements for periods ending on or after 15 December 2016.

ISA (NZ) 200

Pronouncements	Date approved	~~Effective date~~ <u>Application</u>
Amendments to Standards Issued by the NZAuASB: Annual Improvements 2016	October 2016	Effective on 15 December 2016.
Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates)	October 2018	Effective for audits of financial statements for periods beginning on or after 15 December 2019.
Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1	June 2020	Effective on 15 July 2020.
Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)	February 2020	Effective for audits of financial statements for periods beginning on or after 15 December 2021.
Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects	July 2021	Effective for audits of financial statements for periods beginning on or after 15 December 2022.
NZ AS 1 (Revised) <i>The Audit of Service Performance Information</i>	July 2023	Mandatory date of 1 January 2024.
<u>International Standard on Auditing (New Zealand) 570 <i>Going Concern</i></u>	<u>October 2025</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section.</u>
<u>International Standard on Auditing (New Zealand) 240 <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i></u>	<u>October 2025</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section.</u>
<u>Narrow Scope Amendments to the ISQMs, ISAs and ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code</u>	<u>October 2025</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section.</u>
<u>Editorial changes</u>	<u>October 2025</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section.</u>

ISA (NZ) 200

<u>Pronouncements</u>	<u>Date approved</u>	<u>Application date</u>
<u>International Standard on Auditing (New Zealand) 200</u>	<u>October 2025</u>	<u>This ISA (NZ) is effective Periods beginning on or after 15 December 2026, refer commencement and application section.</u>

Table of Amended Paragraphs in ISA (NZ) 200		
Paragraph affected	How affected	By...[date]
A14-A16	Amended	Professional and Ethical Standard 1 (Revised) [Jan 2013]
A17	Amended	Professional and Ethical Standard 3 (Amended) [Jan 2013]
A41, A69, A72	Amended	ISA (NZ) 610 (Revised 2013) [April 2013]
NZA8.1	Amended	Amendments to the International Standards on Auditing (New Zealand) to Promote Improved Audit Quality [Sept 2013]
Various	Amended	Use of Management and those charged with governance [Dec 2013]
NZA7.1—NZ A7.2	Inserted	Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update) [Feb 2014]
3, 13(j), A7, A13, A65	Amended	Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update) [Feb 2014]
NZ4.1	Amended	Amendments to the International Standards on Auditing (New Zealand) to Describe the Responsibilities of Those Charged with Governance [Sept 2015]
13 A1, A2	Amended Inserted	Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures [Sept 2015]
NZ A9.1-2, A67	Amended	Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting) [Sept 2015]
13(h), 13(o)	Amended	Amendments to Standards Issued by the NZAuASB: Annual Improvements 2016 [Oct 2016]
A42	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates) [Oct 2018]
A16, A17, A18, A19	Amended	Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]
A16, A46, A69, A72	Inserted	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [April 2020]

ISA (NZ) 200

Table of Amended Paragraphs in ISA (NZ) 200		
7, 13(n), A41, A43, A44, A45, A64, A70, A71, A76	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [April 2020]
NZ 13.1, 14, A20, A26, NZ A31.1	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]
NZ A7.1, NZ A7.2	Amended	NZ AS 1 (Revised) <i>The Audit of Service Performance Information</i> [July 2023]
<u>9 footnote, A29 footnote, A61</u>	<u>Amended</u>	<u>Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from ISA (NZ) 240 (Revised) [October 2025]</u>
<u>A61, A61 footnote</u>	<u>Amended</u>	<u>Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from ISA (NZ) 570 (Revised 2024) [October 2025]</u>
<u>10, 11, 15(m), A14-A18</u>	<u>Added</u>	<u>Narrow Scope Amendments to the ISQMs, ISAs and ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code [October 2025]</u>
<u>A7, NZ A7.1</u>	<u>Amended</u>	<u>Other editorial changes [October 2025]</u>

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the independent auditor's overall responsibilities when conducting an audit of financial statements in accordance with ISAs (NZ). Specifically, it sets out the overall objectives of the independent auditor, and explains the nature and scope of an audit designed to enable the independent auditor to meet those objectives. It also explains the scope, authority and structure of the ISAs (NZ), and includes requirements establishing the general responsibilities of the independent auditor applicable in all audits, including the obligation to comply with the ISAs (NZ). The independent auditor is referred to as "the auditor" hereafter.
2. ISAs (NZ) are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. ISAs (NZ) do not address the responsibilities of the auditor that may exist in legislation, regulation or otherwise in connection with, for example, the offering of securities to the public. Such responsibilities may differ from those established in the ISAs (NZ). Accordingly, while the auditor may find aspects of the ISAs (NZ) helpful in such circumstances, it is the responsibility of the auditor to ensure compliance with all relevant legal, regulatory or professional obligations.

An Audit of Financial Statements

3. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. In the case of most general purpose frameworks, that opinion is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view in accordance with the framework. An audit conducted in accordance with ISAs (NZ) and relevant ethical requirements enables the auditor to form that opinion. (Ref: Para. A1)
 4. The financial statements subject to audit are those of the entity, prepared by management of the entity with oversight from those charged with governance. ISAs (NZ) do not impose responsibilities on management or those charged with governance and do not override laws and regulations that govern their responsibilities. However, an audit in accordance with ISAs (NZ) is conducted on the premise that management, and where appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to the conduct of the audit. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A2-A11)
- NZ4.1 In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to

ISA (NZ) 200

determine whether the requirements of this standard apply to management or those charged with governance or both.

5. As the basis for the auditor's opinion, ISAs (NZ) require the auditor to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. (Ref: Para. NZA306.1-A5459)
6. The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.² In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgements about materiality are made in the light of surrounding circumstances, and are affected by the auditor's perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The auditor's opinion deals with the financial statements as a whole and therefore the auditor is not responsible for the detection of misstatements that are not material to the financial statements as a whole.
7. The ISAs (NZ) contain objectives, requirements and application and other explanatory material that are designed to support the auditor in obtaining reasonable assurance. The ISAs (NZ) require that the auditor exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit and, among other things:
 - Identify and assess risks of material misstatement, whether due to fraud or error, based on an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.
 - Obtain sufficient appropriate audit evidence about whether material misstatements exist, through designing and implementing appropriate responses to the assessed risks.
 - Form an opinion on the financial statements based on conclusions drawn from the audit evidence obtained.
8. The form of opinion expressed by the auditor will depend upon the applicable financial reporting framework and any applicable law or regulation. (Ref: Para. A12-A13)
9. The auditor may also have certain other communication and reporting responsibilities to users, management, those charged with governance, or parties outside the entity, in

² ISA (NZ) 320, *Materiality in Planning and Performing an Audit* and ISA (NZ) 450, *Evaluation of Misstatements Identified During the Audit*.

ISA (NZ) 200

relation to matters arising from the audit. These may be established by the ISAs (NZ) or by applicable law or regulation.³

10. [Amended by the NZAuASB]

NZ10.1 Some of the requirements set out in the ISAs (NZ) are applicable only to audits of financial statements of FMC reporting entities considered to have a higher level of public accountability, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders. (Ref: Para. A14-A15)

11. [Amended by the NZAuASB]

NZ11.1 Stakeholders have heightened expectations regarding an audit engagement for a FMC reporting entity considered to have a higher level of public accountability because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements in the ISAs (NZ) that apply to audits of financial statements of FMC reporting entities considered to have a higher level of public accountability is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition. (Ref: Para. A14-A18)

Effective Date

~~10.12. This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ12.1. This Standard repeals ISA (NZ) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* issued in July 2011.

Overall Objectives of the Auditor

~~11.13.~~ In conducting an audit of financial statements, the overall objectives of the auditor are:

- (a) To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and
- (b) To report on the financial statements, and communicate as required by the ISAs (NZ), in accordance with the auditor's findings.

~~12.14.~~ In all cases when reasonable assurance cannot be obtained and a qualified opinion in the auditor's report is insufficient in the circumstances for purposes of reporting to the intended users of the financial statements, the ISAs (NZ) require that the auditor

³ See, for example, ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*; and ~~paragraph 43 of~~ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 64-67.

disclaim an opinion or withdraw (or resign)⁴ from the engagement, where withdrawal is possible under applicable law or regulation.

Definitions

1315. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:

- (a) **Applicable financial reporting framework** – The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.

- (b) **Audit evidence** – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information. For purposes of the ISAs (NZ):
 - (i) Sufficiency of audit evidence is the measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.
 - (ii) Appropriateness of audit evidence is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based.
- (c) **Audit risk** – The risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.
- (d) **Auditor** – The person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA (NZ) expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “auditor” is used. “Engagement partner” and “firm” are to be read as referring to their public sector equivalents where relevant.

⁴ In the ISAs (NZ), only the term “withdrawal” is used.

ISA (NZ) 200

- (e) Detection risk – The risk that the procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.
- (f) Financial statements – A structured representation of historical financial information, including disclosures, intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference. (Ref: Para. A149-A1520)
- (g) Historical financial information – Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- (h) Management – The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.
- (i) Misstatement – A difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Where the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgement, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.

- (j) Premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted – That management and, where appropriate, those charged with governance have acknowledged and understand that they have the following responsibilities that are fundamental to the conduct of an audit in accordance with ISAs (NZ). That is, responsibility:
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant, their fair presentation;
 - (ii) For such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation

ISA (NZ) 200

of financial statements that are free from material misstatement, whether due to fraud or error; and

(iii) To provide the auditor with:

- a. Access to all information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b. Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and
- c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

In the case of a fair presentation framework, (i) above may be restated as “for the preparation and *fair* presentation of the financial statements in accordance with the financial reporting framework” or “for the preparation of financial statements *that give a true and fair view* in accordance with the financial reporting framework.”

The “premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit is conducted” may also be referred to as the “premise.”

- (k) Professional judgement – The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
- (l) Professional scepticism – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.

~~(m)~~ ~~– [Deleted by the NZAuASB. Refer to NZ-15.1]~~

~~(mn)~~ Reasonable assurance – In the context of an audit of financial statements, a high, but not absolute, level of assurance.

~~(no)~~ Risk of material misstatement – The risk that the financial statements are materially misstated prior to audit. This consists of two components, described as follows at the assertion level: (Ref: Para. A1621)

- (i) Inherent risk – The susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
- (ii) Control risk – The risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity’s internal control.

ISA (NZ) 200

(ep) Those charged with governance – The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

NZ135.1 FMC reporting entity considered to have a higher level of public accountability⁵ – A FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities:

- under section 461K of the Financial Markets Conduct Act 2013; or
- by notice issued by the Financial Markets Authority (FMA) under section 461L(1) of the Financial Markets Conduct Act 2013.

Requirements

Ethical Requirements Relating to an Audit of Financial Statements

146. The auditor shall comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements. (Ref: Para. A2217-A205)

Professional Scepticism

157. The auditor shall plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A246-A2530)

Professional Judgement

168. The auditor shall exercise professional judgement in planning and performing an audit of financial statements. (Ref: Para. A2631-A305)

Sufficient Appropriate Audit Evidence and Audit Risk

179. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. (Ref: Para. NZA361.1-A5762)

Conduct of an Audit in Accordance with ISAs (NZ)

Complying with ISAs (NZ) Relevant to the Audit

1820. The auditor shall comply with all ISAs (NZ) relevant to the audit. An ISA (NZ) is relevant to the audit when the ISA (NZ) is in effect and the circumstances addressed by the ISA (NZ) exist. (Ref: Para. A5863-A627)

⁵ —Where ISAs (NZ) refer to a FMC reporting entity with a higher level of public accountability, for the purposes of the auditing standards this shall include any listed entity, an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body, whether listed in New Zealand or in another jurisdiction.

ISA (NZ) 200

1921. The auditor shall have an understanding of the entire text of an ISA (NZ), including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A638-A738)

2022. The auditor shall not represent compliance with ISAs (NZ) or ISAs⁶ in the auditor's report unless the auditor has complied with the requirements of this ISA (NZ) and all other ISAs (NZ) relevant to the audit.

Objectives Stated in Individual ISAs (NZ)

243. To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant ISAs (NZ) in planning and performing the audit, having regard to the interrelationships among the ISAs (NZ), to: (Ref: Para. A749-A7681)

- (a) Determine whether any audit procedures in addition to those required by the ISAs (NZ) are necessary in pursuance of the objectives stated in the ISAs (NZ); and (Ref: Para. A7782)
- (b) Evaluate whether sufficient appropriate audit evidence has been obtained. (Ref: Para. A7883)

Complying with Relevant Requirements

224. Subject to paragraph 235, the auditor shall comply with each requirement of an ISA (NZ) unless, in the circumstances of the audit:

- (a) The entire ISA (NZ) is not relevant; or
- (b) The requirement is not relevant because it is conditional and the condition does not exist. (Ref: Para. A7984-A805)

235. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA (NZ). In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. A846)

Failure to Achieve an Objective

246. If an objective in a relevant ISA (NZ) cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the ISAs (NZ), to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with ISA (NZ) 230.⁷ (Ref: Para. A827-A838)

⁶ Note that compliance with ISAs (NZ) will ensure compliance with ISAs.

⁷ ISA (NZ) 230, *Audit Documentation*, paragraph 8(c)

Application and Other Explanatory Material

An Audit of Financial Statements

Scope of the Audit (Ref: Para. 3)

- A1. The auditor's opinion on the financial statements deals with whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial statements. The auditor's opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. In some jurisdictions, however, applicable law or regulation may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. While the ISAs (NZ) include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.

Preparation of the Financial Statements (Ref: Para. 4)

- A2. Law or regulation may establish the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting. However, the extent of these responsibilities, or the way in which they are described, may differ across jurisdictions. Despite these differences, an audit in accordance with ISAs (NZ) is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged and understand that they have responsibility:
- (a) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation;
 - (b) For such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
 - (c) To provide the auditor with:
 - (i) Access to all information of which management and, where appropriate, those charged with governance are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (ii) Additional information that the auditor may request from management and, where appropriate, those charged with governance for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.
- A3. The preparation of the financial statements by management and, where appropriate, those charged with governance requires:

ISA (NZ) 200

- The identification of the applicable financial reporting framework, in the context of any relevant laws or regulations.
- The preparation of the financial statements in accordance with that framework.
- The inclusion of an adequate description of that framework in the financial statements.

The preparation of the financial statements requires management to exercise judgement in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgements are made in the context of the applicable financial reporting framework.

A4. The financial statements may be prepared in accordance with a financial reporting framework designed to meet:

- The common financial information needs of a wide range of users (that is, “general purpose financial statements”); or
- The financial information needs of specific users (that is, “special purpose financial statements”).

A5. The applicable financial reporting framework often encompasses financial reporting standards established by an authorised or recognised standards setting organisation, or legislative or regulatory requirements. In some cases, the financial reporting framework may encompass both financial reporting standards established by an authorised or recognised standards setting organisation and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources, or may even consist only of such sources. Such other sources may include:

- The legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters;
- Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organisations;
- Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organisations;
- General and industry practices widely recognised and prevalent; and
- Accounting literature.

Where conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained, or among the sources that encompass the financial reporting framework, the source with the highest authority prevails.

A6. The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.

ISA (NZ) 200

A7. Some financial reporting frameworks are fair presentation frameworks, while others are compliance frameworks. Financial reporting frameworks that encompass primarily the financial reporting standards established by an organisation that is authorised or recognised to promulgate standards to be used by entities for preparing general purpose financial statements are often designed to achieve fair presentation, for example, ~~International Financial Reporting Standards (IFRSs)~~ IFRS Accounting Standards issued by the International Accounting Standards Board (IASB).

NZ-A7.1 Examples of financial reporting requirements that are designed to achieve fair presentation in New Zealand include:

- New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards (NZ IFRS);
- New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards Reduced Disclosure Regime (NZ IFRS RDR);
- Public Benefit Entity Standards (PBE Standards);
- Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR);
- Reporting Requirements for Tier 3 Public Sector Entities (Tier 3 (PS) Standard);
- Reporting Requirements for Tier 3 Not-for-Profit Entities (Tier 3 (NFP) Standard).

NZ-A7.2 Examples of financial reporting requirements that only require compliance with the requirements (compliance frameworks) in New Zealand include:

- Reporting Requirements for Tier 4 Public Sector Entities (Tier 4 (PS) Standard);
- Reporting Requirements for Tier 4 Not-for-Profit Entities (Tier 4 (NFP) Standard).

A8. The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete set of financial statements would include a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements.

Examples of a single financial statement, each of which would include related notes, are:

- Balance sheet.
- Statement of income or statement of operations.
- Statement of retained earnings.
- Statement of cash flows.
- Statement of assets and liabilities that does not include owner's equity.
- Statement of changes in owner's equity.
- Statement of revenue and expenses.

- Statement of operations by product lines.

NZA8.1

- Statement of financial position.
- Statement of comprehensive income.
- Statement of recognised income and expense.

A9. ISA (NZ) 210 establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework.⁸ ISA (NZ) 800 deals with special considerations when financial statements are prepared in accordance with a special purpose framework.⁹

A10. Because of the significance of the premise to the conduct of an audit, the auditor is required to obtain the agreement of management and, where appropriate, those charged with governance that they acknowledge and understand that they have the responsibilities set out in paragraph A2 as a precondition for accepting the audit engagement.¹⁰

Considerations Specific to Audits in the Public Sector

A11. The mandates for audits of the financial statements of public sector entities may be broader than those of other entities. As a result, the premise, relating to management's responsibilities, on which an audit of the financial statements of a public sector entity is conducted may include additional responsibilities, such as the responsibility for the execution of transactions and events in accordance with law, regulation or other authority.¹¹

Form of the Auditor's Opinion (Ref: Para. 8)

A12. The opinion expressed by the auditor is on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The form of the auditor's opinion, however, will depend upon the applicable financial reporting framework and any applicable law or regulation. Most financial reporting frameworks include requirements relating to the presentation of the financial statements; for such frameworks, *preparation* of the financial statements in accordance with the applicable financial reporting framework includes *presentation*.

A13. Where the financial reporting framework is a fair presentation framework, as is generally the case for general purpose financial statements, the opinion required by the ISAs (NZ) is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework. Unless specifically stated otherwise, references in the ISAs (NZ) to the auditor's opinion cover both forms of opinion.

⁸ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

⁹ ISA (NZ) 800, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 8

¹⁰ ISA (NZ) 210, paragraph 6(b)

¹¹ See paragraph A59

A14. [Amended by the NZAuASB]

NZ-A14.1 The auditor may determine that there are entities other than FMC reporting entities considered to have a higher level of public accountability where stakeholders have heightened expectations regarding the audit engagement, reflecting significant public interest in the financial condition of those entities. Therefore, the auditor may also apply one or more requirements set out in an ISA (NZ) for audits of financial statements of FMC reporting entities considered to have a higher level of public accountability to the audits of such other entity(ies). Paragraphs A15-A18 may be relevant in this regard.

A15. The extent of public interest in the financial condition of an entity may, for example, be affected by:

- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

A16 [Amended by the NZAuASB]

NZ-A16.1 Law, regulation or professional requirements, including relevant ethical requirements, may define or designate an entity(ies) as a "public interest entity" or may use terms other than "public interest entity" to describe entities in which there is a significant public interest in their financial condition. For example, Professional and Ethical Standard 1¹² has identified certain categories of public interest entity, including:

- A publicly traded entity,
- An entity one of whose main functions is to take deposits from the public, or
- An entity one of whose main functions is to provide insurance to the public.

For purposes of Professional and Ethical Standard 1¹³, a firm is required to treat an entity as a public interest entity, when it meets the tier 1 criteria in accordance with XRB A1¹⁴ and is not eligible to report in accordance with the accounting requirements of another tier.

¹² Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand)

¹³ Professional and Ethical Standard 1, paragraph NZR400.22.1

¹⁴ XRB A1 *Accounting Standards Framework*

ISA (NZ) 200

A17. In addition, those responsible for setting law, regulation or professional requirements may also designate categories of “public interest entities”. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

A18. [Amended by the NZAuASB]

NZ-A18.1 The auditor may also consider the following factors in determining whether to apply one or more requirements in an ISA (NZ) for audits of FMC reporting entities considered to have a higher level of public accountability to the audit of another entity(ies):

- Whether the entity is treated as a public interest entity for purposes of relevant ethical requirements, including those related to independence.
- Whether the entity is likely to become a FMC reporting entity considered to have a higher level of public accountability in the near future.
- Whether in similar circumstances, the auditor has applied the differential requirements for FMC reporting entities considered to have a higher level of public accountability to other entities.
- Whether the entity has been specified as not being a FMC reporting entity considered to have a higher level of public accountability by law, regulation or professional requirements.
- Whether the entity or other stakeholders requested the auditor to apply the differential requirements for FMC reporting entities considered to have a higher level of public accountability to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity’s corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.
- Whether in similar circumstances, a predecessor auditor has applied differential requirements for FMC reporting entities considered to have a higher level of public accountability to the entity.

Definitions

Financial Statements (Ref: Para. 135(f))

A19. Some financial reporting frameworks may refer to an entity’s economic resources or obligations in other terms. For example, these may be referred to as the entity’s assets and liabilities, and the residual difference between them may be referred to as equity or equity interests.

A20. Explanatory or descriptive information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein

ISA (NZ) 200

by cross-reference to information in another document, such a management report or a risk report. “Incorporated therein by cross-reference” means cross-referenced from the financial statements to the other document, but not from the other document to the financial statements. Where the applicable financial reporting framework does not expressly prohibit the cross-referencing of where explanatory or descriptive information may be found, and the information has been appropriately cross-referenced, the information will form part of the financial statements.

Risks of Material Misstatement (Ref: Para. 135(f))

A21. For the purposes of the ISAs (NZ), a risk of material misstatement exists when there is a reasonable possibility of:

- (a) A misstatement occurring (i.e., its likelihood); and
- (b) Being material if it were to occur (i.e., its magnitude).

Ethical Requirements Relating to an Audit of Financial Statements (Ref: Para. 146)

A22. The auditor is subject to relevant ethical requirements, including those related to independence, relating to financial statement audit engagements. Relevant ethical requirements ordinarily comprise the provisions of Professional and Ethical Standard 1¹⁵ related to an audit of financial statements.

A23. Professional and Ethical Standard 1 establishes the fundamental principles of ethics, which are:

- (a) Integrity;
- (b) Objectivity;
- (c) Professional competence and due care;
- (d) Confidentiality; and
- (e) Professional Behaviour.

The fundamental principles of ethics establish the standard of behaviour expected of an assurance practitioner.

Professional and Ethical Standard 1 provides a conceptual framework that establishes the approach which an assurance practitioner is required to apply when identifying, evaluating and addressing threats to compliance with the fundamental principles. In the case of audits, reviews and other assurance engagements, Professional and Ethical Standard 1 sets out *International Independence Standards (New Zealand)* established by the application of the conceptual framework to threats to independence in relation to those engagements.

A24. In the case of an audit engagement it is in the public interest and, therefore, required by Professional and Ethical Standard 1, that the auditor be independent of the entity subject to the audit. Professional and Ethical Standard 1 describes independence as comprising both independence of mind and independence in appearance. The auditor’s independence from the entity safeguards the auditor’s ability to form an audit opinion without being affected by influences that might compromise that opinion. Independence

¹⁵ Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*

enhances the auditor's ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.

A25. Professional and Ethical Standard 3,¹⁶ deals with the firm's responsibilities to design, implement and operate a system of quality management that provides the firm with reasonable assurance that the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements. As part of its system of quality management, Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence.¹⁷ ISA (NZ) 220 (Revised) sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including those related to independence¹⁸. ISA (NZ) 220 (Revised) also describes when the engagement team may depend on the firm's policies and procedures in managing and achieving quality at the engagement level.¹⁹

Professional Scepticism (Ref: Para. 157)

A26. Professional scepticism includes being alert to, for example:

- Audit evidence that contradicts other audit evidence obtained.
- Information that brings into question the reliability of documents and responses to enquiries to be used as audit evidence.
- Conditions that may indicate possible fraud.
- Circumstances that suggest the need for audit procedures in addition to those required by the ISAs (NZ).

A27. Maintaining professional scepticism throughout the audit is necessary if the auditor is, for example, to reduce the risks of:

- Overlooking unusual circumstances.
- Over generalising when drawing conclusions from audit observations.
- Using inappropriate assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof.

A28. Professional scepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to enquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in the light of the circumstances, for example in the case where fraud risk factors exist and a single document, of a nature that is susceptible to fraud, is the sole supporting evidence for a material financial statement amount.

¹⁶ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

¹⁷ Professional and Ethical Standard 3, paragraph 29

¹⁸ ISA (NZ) 220 (Revised), paragraphs 16-21

¹⁹ ISA (NZ) 220 (Revised), paragraph A10

ISA (NZ) 200

- A29. The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence.²⁰ In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the ISAs (NZ) require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.²¹
- A30. The auditor cannot be expected to disregard past experience of the honesty and integrity of the entity's management and those charged with governance. Nevertheless, a belief that management and those charged with governance are honest and have integrity does not relieve the auditor of the need to maintain professional scepticism or allow the auditor to be satisfied with less-than-persuasive audit evidence when obtaining reasonable assurance.

Professional Judgement (Ref: Para. 168)

- A31. Professional judgement is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and the ISAs (NZ) and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgement is necessary in particular regarding decisions about:
- Materiality and audit risk.
 - The nature, timing, and extent of audit procedures used to meet the requirements of the ISAs (NZ) and gather audit evidence.
 - Evaluating whether sufficient appropriate audit evidence has been obtained, and whether more needs to be done to achieve the objectives of the ISAs (NZ) and thereby, the overall objectives of the auditor.
 - The evaluation of management's judgements in applying the entity's applicable financial reporting framework.
 - The drawing of conclusions based on the audit evidence obtained, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.
- A32. The distinguishing feature of the professional judgement expected of an auditor is that it is exercised by an auditor whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgements.
- A33. The exercise of professional judgement in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, such

²⁰ ISA (NZ) 500, *Audit Evidence*, paragraphs 7-9

²¹ ISA (NZ) 240, paragraph 422; ISA (NZ) 500, paragraph 11; and ISA (NZ) 505, *External Confirmations*, paragraphs 10-11 and 16

ISA (NZ) 200

as that required by ISA (NZ) 220 (Revised),²² assist the auditor in making informed and reasonable judgements.

- A34. Professional judgement can be evaluated based on whether the judgement reached reflects a competent application of auditing and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report.
- A35. Professional judgement needs to be exercised throughout the audit. It also needs to be appropriately documented. In this regard, the auditor is required to prepare audit documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the significant professional judgements made in reaching conclusions on significant matters arising during the audit.²³ Professional judgement is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate audit evidence.

Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 179)

Sufficiency and Appropriateness of Audit Evidence

A36. [Amended by the NZAuASB].

NZA316.1 Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit²⁴) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, the refusal of those charged with governance to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

- A37. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.
- A38. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion

²² ISA (NZ) 220 (Revised), paragraph 35

²³ ISA (NZ) 230, paragraph 8

²⁴ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 16

ISA (NZ) 200

is based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.

- A39. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgement. ISA (NZ) 500 and other relevant ISAs (NZ) establish additional requirements and provide further guidance applicable throughout the audit regarding the auditor's considerations in obtaining sufficient appropriate audit evidence.

Audit Risk

- A40. Audit risk is a function of the risks of material misstatement and detection risk. The assessment of risks is based on audit procedures to obtain information necessary for that purpose and evidence obtained throughout the audit. The assessment of risks is a matter of professional judgement, rather than a matter capable of precise measurement.
- A41. For purposes of the ISAs (NZ), audit risk does not include the risk that the auditor might express an opinion that the financial statements are materially misstated when they are not. This risk is ordinarily insignificant. Further, audit risk is a technical term related to the process of auditing; it does not refer to the auditor's business risks such as loss from litigation, adverse publicity, or other events arising in connection with the audit of financial statements.

Risks of Material Misstatement

- A42. The risks of material misstatement may exist at two levels:
- The overall financial statement level; and
 - The assertion level for classes of transactions, account balances, and disclosures.
- A43. Risks of material misstatement at the overall financial statement level refer to risks of material misstatement that relate pervasively to the financial statements as a whole and potentially affect many assertions.
- A44. Risks of material misstatement at the assertion level are assessed in order to determine the nature, timing, and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk. Auditors use various approaches to accomplish the objective of assessing the risks of material misstatement. For example, the auditor may make use of a model that expresses the general relationship of the components of audit risk in mathematical terms to arrive at an acceptable level of detection risk. Some auditors find such a model to be useful when planning audit procedures.
- A45. The risks of material misstatement at the assertion level consist of two components: inherent risk and control risk. Inherent risk and control risk are the entity's risks; they exist independently of the audit of the financial statements.
- A46. Inherent risk influenced by inherent risk factors. Depending on the degree to which the inherent risk factors affect the susceptibility to misstatement of an assertion, the level of inherent risk varies on a scale that is referred to as the spectrum of inherent risk. The auditor determines significant classes of transactions, account balances and disclosures, and their relevant assertions, as part of the process of identifying and assessing the risks of

ISA (NZ) 200

material misstatement. For example, account balances consisting of amounts derived from accounting estimates that are subject to significant estimation uncertainty may be identified as significant account balances, and the auditor's assessment of inherent risk for the related risks at the assertion level may be higher because of the high estimation uncertainty.

- A47. External circumstances giving rise to business risks may also influence inherent risk. For example, technological developments might make a particular product obsolete, thereby causing inventory to be more susceptible to overstatement. Factors in the entity and its environment that relate to several or all of the classes of transactions, account balances, or disclosures may also influence the inherent risk related to a specific assertion. Such factors may include, for example, a lack of sufficient working capital to continue operations or a declining industry characterised by a large number of business failures.
- A48. Control risk is a function of the effectiveness of the design, implementation and maintenance of controls by management to address identified risks that threaten the achievement of the entity's objectives relevant to preparation of the entity's financial statements. However, internal control, no matter how well designed and operated, can only reduce, but not eliminate, risks of material misstatement in the financial statements, because of the inherent limitations of controls. These include, for example, the possibility of human errors or mistakes, or of controls being circumvented by collusion or inappropriate management override. Accordingly, some control risk will always exist. The ISAs (NZ) provide the conditions under which the auditor is required to, or may choose to, test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures to be performed.²⁵
- A49. The assessment of the risks of material misstatement may be expressed in quantitative terms, such as in percentages, or in non-quantitative terms. In any case, the need for the auditor to make appropriate risk assessments is more important than the different approaches by which they may be made. The ISAs (NZ) typically refer to the "risks of material misstatement" rather than to inherent risk and control risk separately. However, ISA (NZ) 315 (Revised 2019)²⁶ requires inherent risk to be assessed separately from control risk to provide basis for designing and performing further audit procedures to respond to the assessed risks of material misstatement at the assertion level, in accordance with ISA (NZ) 330.
- A50. ISA (NZ) 315 (Revised 2019) establishes requirements and provides guidance on identifying and assessing the risks of material misstatement at the financial statement and assertion levels.
- A51. Risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.²⁷

²⁵ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, paragraphs 7-17

²⁶ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

²⁷ ISA (NZ) 330, paragraph 6

ISA (NZ) 200**Detection Risk**

A52. For a given level of audit risk, the acceptable level of detection risk bears an inverse relationship to the assessed risks of material misstatement at the assertion level. For example, the greater the risks of material misstatement the auditor believes exists, the less the detection risk that can be accepted and, accordingly, the more persuasive the audit evidence required by the auditor.

A53. Detection risk relates to the nature, timing, and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. It is therefore a function of the effectiveness of an audit procedure and of its application by the auditor. Matters such as:

- adequate planning;
- proper assignment of personnel to the engagement team;
- the application of professional scepticism, and
- supervision and review of the audit work performed,

assist to enhance the effectiveness of an audit procedure and of its application and reduce the possibility that an auditor might select an inappropriate audit procedure, misapply an appropriate audit procedure, or misinterpret the audit results.

A54. ISA (NZ) 300²⁸ and ISA (NZ) 330 establish requirements and provide guidance on planning an audit of financial statements and the auditor's responses to assessed risks. Detection risk, however, can only be reduced, not eliminated, because of the inherent limitations of an audit. Accordingly, some detection risk will always exist.

Inherent Limitations of an Audit

A55. The auditor is not expected to, and cannot, reduce audit risk to zero and cannot therefore obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because there are inherent limitations of an audit, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The inherent limitations of an audit arise from:

- The nature of financial reporting;
- The nature of audit procedures; and
- The need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

The Nature of Financial Reporting

A56. The preparation of financial statements involves judgement by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgements that may be made. Consequently, some financial statement items are subject to an inherent level of variability which cannot be eliminated by the application of additional auditing procedures. For example, this is

²⁸ ISA (NZ) 300 *Planning an Audit of Financial Statements*

ISA (NZ) 200

often the case with respect to certain accounting estimates. Nevertheless, the ISAs (NZ) require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and related disclosures, and to the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements.²⁹

The Nature of Audit Procedures

A57. There are practical and legal limitations on the auditor's ability to obtain audit evidence. For example:

- There is the possibility that management or others may not provide, intentionally or unintentionally, the complete information that is relevant to the preparation of the financial statements or that has been requested by the auditor. Accordingly, the auditor cannot be certain of the completeness of information, even though the auditor has performed audit procedures to obtain assurance that all relevant information has been obtained.
- Fraud may involve sophisticated and carefully organised schemes designed to conceal it. Therefore, audit procedures used to gather audit evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify documentation which may cause the auditor to believe that audit evidence is valid when it is not. The auditor is neither trained as nor expected to be an expert in the authentication of documents.
- An audit is not an official investigation into alleged wrongdoing. Accordingly, the auditor is not given specific legal powers, such as the power of search, which may be necessary for such an investigation.

Timeliness of Financial Reporting and the Balance between Benefit and Cost

A58. The matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive. Appropriate planning assists in making sufficient time and resources available for the conduct of the audit. Notwithstanding this, the relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. This is recognised in certain financial reporting frameworks (see, for example, the New Zealand Equivalent to the IASB's *Conceptual Framework for Financial Reporting*). Therefore, there is an expectation by users of financial statements that the auditor will form an opinion on the financial statements within a reasonable period of time and at a reasonable cost, recognising that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.

A59. Consequently, it is necessary for the auditor to:

- Plan the audit so that it will be performed in an effective manner;

²⁹ ISA (NZ) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 12

ISA (NZ) 200

- Direct audit effort to areas most expected to contain risks of material misstatement, whether due to fraud or error, with correspondingly less effort directed at other areas; and
- Use testing and other means of examining populations for misstatements.

A60. In light of the approaches described in paragraph A54, the ISAs (NZ) contain requirements for the planning and performance of the audit and require the auditor, among other things, to:

- Have a basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels by performing risk assessment procedures and related activities;³⁰ and
- Use testing and other means of examining populations in a manner that provides a reasonable basis for the auditor to draw conclusions about the population.³¹

Other Matters that Affect the Inherent Limitations of an Audit

A61. In the case of certain assertions or subject matters, the potential effects of the inherent limitations on the auditor's ability to detect material misstatements are particularly significant. Such assertions or subject matters include:

- Fraud, particularly fraud involving senior management or collusion. See ISA (NZ) 240 for further discussion.
- The existence and completeness of related party relationships and transactions. See ISA (NZ) 550³² for further discussion.
- The occurrence of non-compliance with laws and regulations. See ISA (NZ) 250 (Revised)³³ for further discussion.
- Future events or conditions that may cause an entity to cease to continue as a going concern. See ISA 570³⁴ for further discussion.

Relevant ISAs (NZ) identify specific audit procedures to assist in mitigating the effect of the inherent limitations.

A62. Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (NZ). Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with ISAs (NZ). However, the inherent limitations of an audit are not a justification for the auditor to be satisfied with less-than-persuasive audit evidence. Whether the auditor has performed an audit in accordance with ISAs (NZ) is determined by the audit procedures performed in the circumstances, the sufficiency and appropriateness of the audit evidence obtained as a result thereof and the suitability of the auditor's report based on an evaluation of that evidence in light of the overall objectives of the auditor.

³⁰ ISA (NZ) 315 (Revised 2019), paragraphs 17-22

³¹ ISA (NZ) 330; ISA (NZ) 500; ISA (NZ) 520, *Analytical Procedures*; and ISA (NZ) 530, *Audit Sampling*

³² ISA (NZ) 550, *Related Parties*

³³ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

³⁴ ISA (NZ) 570 (Revised), *Going Concern*

Conduct of an Audit in Accordance with ISAs (NZ)

Nature of the ISAs (NZ) (Ref: Para. ~~18~~20)

- A63. The ISAs (NZ), taken together, provide the standards for the auditor's work in fulfilling the overall objectives of the auditor. The ISAs (NZ) deal with the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics.
- A64. The scope, effective date and any specific limitation of the applicability of a specific ISA (NZ) is made clear in the ISA (NZ). Unless otherwise stated in the ISA (NZ), the auditor is permitted to apply an ISA (NZ) before the effective date specified therein.
- A65. In performing an audit, the auditor may be required to comply with legal or regulatory requirements in addition to the ISAs (NZ). The ISAs (NZ) do not override law or regulation that governs an audit of financial statements. In the event that such law or regulation differs from the ISAs (NZ), an audit conducted only in accordance with law or regulation will not automatically comply with ISAs (NZ).
- A66. The auditor may also conduct the audit in accordance with both ISAs and auditing standards of a specific jurisdiction or country. In such cases, in addition to complying with each of the ISAs relevant to the audit, it may be necessary for the auditor to perform additional audit procedures in order to comply with the relevant standards of that jurisdiction or country.

Considerations Specific to Audits in the Public Sector

- A67. The ISAs (NZ) are relevant to engagements in the public sector. The public sector auditor's responsibilities, however, may be affected by the audit mandate which may encompass a broader scope than an audit of financial statements in accordance with the ISAs (NZ). These additional responsibilities are not dealt with in the ISAs (NZ). They may be dealt with in the Auditor-General's Auditing Standards or in other guidance developed by the Auditor-General.

Contents of the ISAs (NZ) (Ref: Para. ~~19~~21)

- A68. In addition to objectives and requirements (requirements are expressed in the ISAs (NZ) using "shall"), an ISA (NZ) contains related guidance in the form of application and other explanatory material. It may also contain introductory material that provides context relevant to a proper understanding of the ISA (NZ), and definitions. The entire text of an ISA (NZ), therefore, is relevant to an understanding of the objectives stated in an ISA (NZ) and the proper application of the requirements of an ISA (NZ).
- A69. Where necessary, the application and other explanatory material provides further explanation of the requirements of an ISA (NZ) and guidance for carrying them out. In particular, it may:
- Explain more precisely what a requirement means or is intended to cover, including in some ISAs (NZ) such as ISA (NZ) 315 (Revised 2019), why a procedure is required.
 - Include examples of procedures that may be appropriate in the circumstances. In some ISAs (NZ), such as ISA (NZ) 315 (Revised 2019), examples are presented in boxes.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an ISA (NZ). The application and other explanatory

ISA (NZ) 200

material may also provide background information on matters addressed in an ISA (NZ).

A70. Appendices form part of the application and other explanatory material. The purpose and intended use of an appendix are explained in the body of the related ISA (NZ) or within the title and introduction of the appendix itself.

A71. Introductory material may include, as needed, such matters as explanation of:

- The purpose and scope of the ISA (NZ), including how the ISA (NZ) relates to other ISAs (NZ).
- The subject matter of the ISA (NZ).
- The respective responsibilities of the auditor and others in relation to the subject matter of the ISA (NZ).
- The context in which the ISA (NZ) is set.

A72. An ISA (NZ) may include, in a separate section under the heading ‘Definitions’, a description of the meanings attributed to certain terms for purposes of the ISAs (NZ). These are provided to assist in the consistent application and interpretation of the ISAs (NZ), and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout the ISAs (NZ). The Glossary of Terms issued by the New Zealand Auditing and Assurance Standards Board contains a complete listing of terms defined in the ISAs (NZ). It also includes descriptions of other terms found in the ISAs (NZ) to assist in common and consistent interpretation.

A73. When appropriate, additional considerations specific to audits of smaller entities and public sector entities are included within the application and other explanatory material of an ISA (NZ). These additional considerations assist in the application of the requirements of the ISA (NZ) in the audit of such entities. They do not, however, limit or reduce the responsibility of the auditor to apply and comply with the requirements of the ISAs (NZ).

Scalability Considerations

A74. Scalability considerations have been included in some ISAs (NZ) (e.g., ISA (NZ) 315 (Revised 2019)), illustrating the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex. Less complex entities are entities for which the characteristics in paragraph A66 may apply.

A75. The “considerations specific to smaller entities” included in some ISAs (NZ) have been developed primarily with entities that are not FMC reporting entities considered to have a higher level of public accountability in mind. Some of the considerations, however, may be helpful in audits of smaller FMC reporting entities considered to have a higher level of public accountability.

A76. For purposes of specifying additional considerations to audits of smaller entities, a “smaller entity” refers to an entity which typically possesses qualitative characteristics such as:

- (a) Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and

- (b) One or more of the following:
- (i) Straightforward or uncomplicated transactions;
 - (ii) Simple record-keeping;
 - (iii) Few lines of business and few products within business lines;
 - (iv) Simpler systems of internal controls;
 - (v) Few levels of management with responsibility for a broad range of controls;
or
 - (vi) Few personnel, many having a wide range of duties.

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

A77. The ISAs (NZ) refer to the proprietor of a smaller entity who is involved in running the entity on a day-to-day basis as the “owner-manager.”

Considerations Specific to Automated Tools and Techniques

A78. The considerations specific to “automated tools and techniques” included in some ISAs (for example, ISA (NZ) 315 (Revised 2019)) have been developed to explain how the auditor may apply certain requirements when using automated tools and techniques in performing audit procedures.

Objectives Stated in Individual ISAs (NZ) (Ref: Para. ~~21~~23)

A79. Each ISA (NZ) contains one or more objectives which provide a link between the requirements and the overall objectives of the auditor. The objectives in individual ISAs (NZ) serve to focus the auditor on the desired outcome of the ISA (NZ), while being specific enough to assist the auditor in:

- Understanding what needs to be accomplished and, where necessary, the appropriate means of doing so; and
- Deciding whether more needs to be done to achieve them in the particular circumstances of the audit.

A80. Objectives are to be understood in the context of the overall objectives of the auditor stated in paragraph 11 of this ISA (NZ). As with the overall objectives of the auditor, the ability to achieve an individual objective is equally subject to the inherent limitations of an audit.

A81. In using the objectives, the auditor is required to have regard to the interrelationships among the ISAs (NZ). This is because, as indicated in paragraph A55, the ISAs (NZ) deal in some cases with general responsibilities and in others with the application of those responsibilities to specific topics. For example, this ISA (NZ) requires the auditor to adopt an attitude of professional scepticism; this is necessary in all aspects of planning and performing an audit but is not repeated as a requirement of each ISA (NZ). At a more detailed level, ISA (NZ) 315 (Revised 2019) and ISA (NZ) 330 contain, among other things, objectives and requirements that deal with the auditor’s responsibilities to identify and assess the risks of material misstatement and to design and perform further audit procedures to respond to those assessed risks, respectively; these objectives and requirements apply throughout the audit. An ISA (NZ) dealing with specific aspects of the audit (for example, ISA (NZ) 540 (Revised)) may expand

ISA (NZ) 200

on how the objectives and requirements of such ISAs (NZ) as ISA (NZ) 315 (Revised 2019) and ISA (NZ) 330 are to be applied in relation to the subject of the ISA (NZ) but does not repeat them. Thus, in achieving the objective stated in ISA (NZ) 540 (Revised), the auditor has regard to the objectives and requirements of other relevant ISAs (NZ).

Use of Objectives to Determine Need for Additional Audit Procedures (Ref: Para. 243(a))

A82. The requirements of the ISAs (NZ) are designed to enable the auditor to achieve the objectives specified in the ISAs (NZ), and thereby the overall objectives of the auditor. The proper application of the requirements of the ISAs (NZ) by the auditor is therefore expected to provide a sufficient basis for the auditor's achievement of the objectives. However, because the circumstances of audit engagements vary widely and all such circumstances cannot be anticipated in the ISAs (NZ), the auditor is responsible for determining the audit procedures necessary to fulfill the requirements of the ISAs (NZ) and to achieve the objectives. In the circumstances of an engagement, there may be particular matters that require the auditor to perform audit procedures in addition to those required by the ISAs (NZ) to meet the objectives specified in the ISAs (NZ).

Use of Objectives to Evaluate Whether Sufficient Appropriate Audit Evidence Has Been Obtained (Ref: Para. 243(b))

A83. The auditor is required to use the objectives to evaluate whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. If as a result the auditor concludes that the audit evidence is not sufficient and appropriate, then the auditor may follow one or more of the following approaches to meeting the requirement of paragraph 21(b):

- Evaluate whether further relevant audit evidence has been, or will be, obtained as a result of complying with other ISAs (NZ);
- Extend the work performed in applying one or more requirements; or
- Perform other procedures judged by the auditor to be necessary in the circumstances.

Where none of the above is expected to be practical or possible in the circumstances, the auditor will not be able to obtain sufficient appropriate audit evidence and is required by the ISAs (NZ) to determine the effect on the auditor's report or on the auditor's ability to complete the engagement.

Complying with Relevant Requirements

Relevant Requirements (Ref: Para. 224)

A84. In some cases, an ISA (NZ) (and therefore all of its requirements) may not be relevant in the circumstances. For example, if an entity does not have an internal audit function, nothing in ISA (NZ) 610 (Revised 2013)³⁵ is relevant.

A85. Within a relevant ISA (NZ), there may be conditional requirements. Such a requirement is relevant when the circumstances envisioned in the requirement apply and the

³⁵ ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*, Paragraph 2

ISA (NZ) 200

condition exists. In general, the conditionality of a requirement will either be explicit or implicit, for example:

- The requirement to modify the auditor's opinion if there is a limitation of scope³⁶ represents an explicit conditional requirement.
- The requirement to communicate significant deficiencies in internal control identified during the audit to those charged with governance,³⁷ which depends on the existence of such identified significant deficiencies; and the requirement to obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework,³⁸ which depends on that framework requiring or permitting such disclosure, represent implicit conditional requirements.

In some cases a requirement may be expressed as being conditional on applicable law or regulation. For example, the auditor may be required to withdraw from the audit engagement, *where withdrawal is possible under applicable law or regulation*, or the auditor may be required to do something, *unless prohibited by law or regulation*. Depending on the jurisdiction, the legal or regulatory permission or prohibition may be explicit or implicit.

Departure from a Requirement (Ref: Para. 235)

A86. ISA (NZ) 230 establishes documentation requirements in those exceptional circumstances where the auditor departs from a relevant requirement.³⁹ The ISAs (NZ) do not call for compliance with a requirement that is not relevant in the circumstances of the audit.

Failure to Achieve an Objective (Ref: Para. 246)

A87. Whether an objective has been achieved is a matter for the auditor's professional judgement. That judgement takes account of the results of audit procedures performed in complying with the requirements of the ISAs (NZ), and the auditor's evaluation of whether sufficient appropriate audit evidence has been obtained and whether more needs to be done in the particular circumstances of the audit to achieve the objectives stated in the ISAs (NZ). Accordingly, circumstances that may give rise to a failure to achieve an objective include those that:

- Prevent the auditor from complying with the relevant requirements of an ISA (NZ).
- Result in its not being practicable or possible for the auditor to carry out the additional audit procedures or obtain further audit evidence as determined necessary from the use of the objectives in accordance with paragraph 243, for example due to a limitation in the available audit evidence.

A88. Audit documentation that meets the requirements of ISA (NZ) 230 and the specific documentation requirements of other relevant ISAs (NZ) provides evidence of the

³⁶ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 13

³⁷ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph 9

³⁸ ISA (NZ) 501, *Audit Evidence - Specific Considerations for Selected Items*, paragraph 13

³⁹ ISA (NZ) 230, paragraph 12

ISA (NZ) 200

auditor's basis for a conclusion about the achievement of the overall objectives of the auditor. While it is unnecessary for the auditor to document separately (as in a checklist, for example) that individual objectives have been achieved, the documentation of a failure to achieve an objective assists the auditor's evaluation of whether such a failure has prevented the auditor from achieving the overall objectives of the auditor.

ISA (NZ) 200

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement ~~accompanies but is not part of ISA (NZ) 200~~ is not part of the sStandard.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing (ISA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been ~~amended or~~ added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

The following requirement is additional to ISA 200 and ASA 200:

- In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both. (Ref: Para NZ4.1)

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

~~References to listed entities publicly traded entities~~ have been broadened to refer to FMC reporting entities considered to have a higher level of public accountability in New Zealand. This is in accordance with ISA 200, which allows defining publicly traded entities in relation to specific public markets in local jurisdictions and allows use of local terminology for publicly traded entities that bring significant public interest in a local jurisdiction.

Compliance with this ISA (NZ) enables compliance with ISA 200.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

ASA 200 conforms to ISA 200.

The following requirements are additional to ISA 200 and ISA (NZ) 200:

- Where in rare and exceptional circumstances, factors outside the auditor's control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall:
 - ♦ If possible, perform appropriate alternative audit procedures; and

ISA (NZ) 200

- ◆ In accordance with ASA 230, document in the working papers:
 - The circumstances surrounding the inability to comply;
 - The reasons for the inability to comply; and
 - Justification of how alternative audit procedures achieve the objectives of the requirement. (Ref: Para. Aus 23.1)

The equivalent requirements and related application and other explanatory material included in ISA 200 in respect of “relevant ethical requirements”, have been included in another Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international or New Zealand equivalent to ASA 102.

Minimum Legislative Information

(This information is not part of the [standard](#))

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025.</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 210

Agreeing the Terms of Audit Engagements ~~(ISA (NZ) 210)~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in February 2024 and incorporates amendments up to July 2023.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 210 issued by the External Reporting Board in July 2011.

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-01-2

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 210 *Agreeing the Terms of Audit Engagements* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 210 issued by the External Reporting Board in July 2011 (as amended to July 2023).

The revision of ISA (NZ) 210 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC)¹, the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from the IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 210

AGREEING THE TERMS OF AUDIT ENGAGEMENTS*Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1
Effective Date	2
Objective	3
Definitions	4-5
Requirements	
Preconditions for an Audit	6-8
Agreement on Audit Engagement Terms	9-12
Recurring Audits	13
Acceptance of a Change in the Terms of the Audit Engagement	14-17
Additional Considerations in Engagement Acceptance	18-21
Application and Other Explanatory Material	
Scope of this ISA (NZ)	A1
Preconditions for an Audit	A2-A21
Agreement on Audit Engagement Terms	A22-A29
Recurring Audits	A30
Acceptance of a Change in the Terms of the Audit Engagement	A31-A35
Additional Considerations in Engagement Acceptance	A36-A39
Appendix 1: Example of an Audit Engagement Letter	
Appendix 2: Determining the Acceptability of General Purpose Frameworks	
~~Accompanying Attachment: Conformity to the International Standards on Auditing~~	

International Standard on Auditing (New Zealand) (ISA (NZ)) 210, “Agreeing the Terms of Audit Engagements” should be read in conjunction with ISA (NZ) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand).”

History of Amendments

Table of pronouncements – ISA (NZ) 210 *Agreeing the Terms of Audit Engagements*

This table lists the pronouncements establishing and amending ISA (NZ) 210.

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 210	<u>October 2025</u> <u>July 2011</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section.</u> <u>This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September 2011.</u>
~~International Standard on Assurance Engagements (New Zealand) 3410 <i>Assurance Engagements on Greenhouse Gas Statements</i>~~	~~December 2012~~	~~31 March 2013.~~
~~Professional and Ethical Standard 1 (Revised) <i>Code of Ethics for Assurance Practitioners</i>~~	~~Jan 2013~~	~~Effective on 1 January 2014.~~
~~Use of management and those charged with governance~~	~~Dec 2013~~	~~Effective for audits of financial statements for periods beginning on or after 1 July 2014.~~
~~Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update)~~	~~February 2014~~	~~Effective for audits and assurance engagements for periods beginning on or after 1 April 2014.~~
~~Amendments to the International Standards on Auditing (New Zealand) to Describe the Responsibilities of Those Charged with Governance~~	~~September 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures~~	~~September 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting)~~	~~September 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Conforming Amendments to ISAs (NZ) and Other Pronouncements~~	~~October 2016~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2017.~~

ISA (NZ) 210

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1	June 2020	Effective on 15 July 2020.
Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)	February 2020	Effective for audits of financial statements for periods beginning on or after 15 December 2021.
Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects	July 2021	Effective for audits of financial statements for periods beginning on or after 15 December 2022.
Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards	May 2023	Mandatory date of 1 January 2023.
NZ AS 1 (Revised) <i>The Audit of Service Performance Information</i>	July 2023	Mandatory date of 1 January 2024.

Table of Amended Paragraphs in ISA (NZ) 210		
Paragraph affected	How affected	By...[date]
Various	Terminology changed	ISAE (NZ) 3410 [Dec 2012]
NZ21.1	Amended	Professional and Ethical Standard 1 (Revised) [Jan 2013]
Various	Amended	Use of management and those charged with governance [Dec 2013]
19, A8, A15, Appendix 1	Amended	Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update) [Feb 2014]
NZ A8.1	Inserted	Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update) [Feb 2014]
NZ1.1, Illustrative engagement letter	Amended	Amendments to the International Standards on Auditing (New Zealand) to Describe the Responsibilities of Those Charged with Governance [Sept 2015]

ISA (NZ) 210

A11, NZA24.1, Appendix 1	Amended	Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures [Sept 2015]
NZ10.1, NZA8.1, NZA24.1, Appendix 1 A20, A25	Amended Inserted	Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting) [Sept 2015]
A26	Amended	Conforming Amendments to ISAs (NZ) and Other Pronouncements [Oct 2016]
NZ21.1	Amended	Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]
A16 and A18	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)
1, A1	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]
Appendix 1	Amended	Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards [May 2023]
NZ A8.1	Amended	NZ AS 1 (Revised) <i>The Audit of Service Performance Information</i> [July 2023]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present. ISA (NZ) 220 (Revised)¹ deals with those aspects of engagement acceptance that are within the control of the auditor. (Ref: Para. A1)

NZ1.1 In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.

Effective Date

2. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ 2.1 This Standard repeals ISA (NZ) 210 *Agreeing the Terms of Audit Engagements* issued in July 2011.

Objective

3. The objective of the auditor is to accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:
 - (a) Establishing whether the preconditions for an audit are present; and
 - (b) Confirming that there is a common understanding between the auditor and management and, where appropriate those charged with governance of the terms of the audit engagement.

Definitions

4. For purposes of the ISAs (NZ), the following term has the meaning attributed below:
 Preconditions for an audit – The use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of

¹ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*

ISA (NZ) 210

management and, where appropriate, those charged with governance to the premise² on which an audit is conducted.

5. For the purposes of this ISA (NZ), references to “management” should be read hereafter as “management and, where appropriate, those charged with governance.”

Requirements**Preconditions for an Audit**

6. [Amended by the NZAuASB].

NZ6.1 In order to establish whether the preconditions for an audit are present, the auditor shall:

- (a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and (Ref: Para. A2-A10)
- (b) Obtain the agreement of those charged with governance that they acknowledge and understand their responsibility: (Ref: Para A11-A14, A21)
 - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation; (Ref: Para. A15)
 - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: Para. A16-A19)
 - (iii) To provide the auditor with:
 - a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. Additional information that the auditor may request from management for the purpose of the audit; and (Ref: Para. A20)
 - c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

Limitation on Scope Prior to Audit Engagement Acceptance

7. If management or those charged with governance impose a limitation on the scope of the auditor’s work in the terms of a proposed audit engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor shall not accept such a limited engagement as an audit engagement, unless required by law or regulation to do so.

Other Factors Affecting Audit Engagement Acceptance

8. If the preconditions for an audit are not present, the auditor shall discuss the matter with management. Unless required by law or regulation to do so, the auditor shall not accept the proposed audit engagement:

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

ISA (NZ) 210

- (a) If the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable, except as provided in paragraph 19; or
- (b) If the agreement referred to in paragraph 6(b) has not been obtained.

Agreement on Audit Engagement Terms

9. [Amended by the NZAuASB.]

NZ9.1 The auditor shall agree the terms of the audit engagement with those charged with governance. (Ref: Para. A22)

10. [Amended by the NZAuASB.]

NZ10.1 Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A23-A27)

- (a) The objective and scope of the audit of the financial statements;
 - (b) The responsibilities of the auditor;
 - (c) The responsibilities of those charged with governance;
 - (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
 - (e) Reference to the expected form and content of any reports to be issued by the auditor; and (Ref: Para A24)
 - (f) A statement that there may be circumstances in which a report may differ from its expected form and content.
11. If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b). (Ref: Para. A23, A28-A29)
12. If law or regulation prescribes responsibilities of management similar to those described in paragraph 6(b), the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgement, are equivalent in effect to those set out in that paragraph. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the written agreement. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written agreement shall use the description in paragraph 6(b). (Ref: Para. A28)

Recurring Audits

13. On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement. (Ref: Para. A30)

Acceptance of a Change in the Terms of the Audit Engagement

14. The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so. (Ref: Para. A31-A33)
15. If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so. (Ref: Para. A34-A35)
16. If the terms of the audit engagement are changed, the auditor and management shall agree on and record the new terms of the engagement in an engagement letter or other suitable form of written agreement.
17. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, the auditor shall:
 - (a) Withdraw from the audit engagement where possible under applicable law or regulation; and
 - (b) Determine whether there is any obligation, either contractual or otherwise, to report the circumstances to other parties, such as those charged with governance, owners or regulators.

Additional Considerations in Engagement Acceptance

Financial Reporting Standards Supplemented by Law or Regulation

18. If financial reporting standards established by an authorised or recognised standards setting organisation are supplemented by law or regulation, the auditor shall determine whether there are any conflicts between the financial reporting standards and the additional requirements. If such conflicts exist, the auditor shall discuss with management the nature of the additional requirements and shall agree whether:
 - (a) The additional requirements can be met through additional disclosures in the financial statements; or
 - (b) The description of the applicable financial reporting framework in the financial statements can be amended accordingly.

If neither of the above actions is possible, the auditor shall determine whether it will be necessary to modify the auditor's opinion in accordance with ISA (NZ) 705 (Revised).³ (Ref: Para. A36)

Financial Reporting Framework Prescribed by Law or Regulation—Other Matters Affecting Acceptance

19. If the auditor has determined that the financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation, the auditor shall accept the audit engagement only if the following conditions are present: (Ref: Para. A37)
 - (a) Management agrees to provide additional disclosures in the financial statements required to avoid the financial statements being misleading; and

³ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

ISA (NZ) 210

- (b) It is recognised in the terms of the audit engagement that:
 - (i) The auditor's report on the financial statements will incorporate an Emphasis of Matter paragraph, drawing users' attention to the additional disclosures, in accordance with ISA (NZ) 706 (Revised);⁴ and
 - (ii) Unless the auditor is required by law or regulation to express the auditor's opinion on the financial statements by using the phrases "present fairly, in all material respects," or "give a true and fair view" in accordance with the applicable financial reporting framework, the auditor's opinion on the financial statements will not include such phrases.
- 20. If the conditions outlined in paragraph 19 are not present and the auditor is required by law or regulation to undertake the audit engagement, the auditor shall:
 - (a) Evaluate the effect of the misleading nature of the financial statements on the auditor's report; and
 - (b) Include appropriate reference to this matter in the terms of the audit engagement.

Auditor's Report Prescribed by Law or Regulation

- 21. In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of ISAs (NZ). In these circumstances, the auditor shall evaluate:
 - (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
 - (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.⁵

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with ISAs (NZ). Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with ISAs (NZ).⁶ (Ref: Para. A38-A39)

- NZ21.1 Professional and Ethical Standard 1,⁷ requires assurance practitioners to comply with Auditing Standards; therefore auditors shall not sign an audit report that does not conform to the requirements of this ISA (NZ). In the extremely rare situation described in paragraph 21, the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ).

⁴ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

⁵ ISA (NZ) 706 (Revised)

⁶ See also ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 50

⁷ Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand)

Application and Other Explanatory Material

Scope of this ISA (NZ) (Ref: Para. 1)

- A1. Professional and Ethical Standard 3⁸ deals with the firm's responsibilities regarding the acceptance and continuance of client relationships and specific engagements. The auditor's responsibilities in respect of relevant ethical requirements, including those related to independence, in the context of the acceptance of an audit engagement and insofar as they are within the control of the auditor are dealt with in ISA (NZ) 220 (Revised).⁹ This ISA (NZ) deals with those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.

Preconditions for an Audit

The Financial Reporting Framework (Ref: Para. 6(a))

- A2. A condition for acceptance of an assurance engagement is that the criteria referred to in the definition of an assurance engagement are suitable and available to intended users. Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Suitable criteria enable reasonably consistent evaluation or measurement of a subject matter within the context of professional judgement. For purposes of the ISAs (NZ), the applicable financial reporting framework provides the criteria the auditor uses to audit the financial statements, including where relevant their fair presentation.
- A3. Without an acceptable financial reporting framework, management does not have an appropriate basis for the preparation of the financial statements and the auditor does not have suitable criteria for auditing the financial statements. In many cases the auditor may presume that the applicable financial reporting framework is acceptable, as described in paragraphs A8-A9.

Determining the Acceptability of the Financial Reporting Framework

- A4. Factors that are relevant to the auditor's determination of the acceptability of the financial reporting framework to be applied in the preparation of the financial statements include:
- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not for profit organisation);
 - The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users);
 - The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and

⁸ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 30

⁹ ISA (NZ) 220 (Revised), paragraphs 16-21

- Whether law or regulation prescribes the applicable financial reporting framework.
- A5. Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users are referred to as general purpose financial statements.
- A6. In some cases, the financial statements will be prepared in accordance with a financial reporting framework designed to meet the financial information needs of specific users. Such financial statements are referred to as special purpose financial statements. The financial information needs of the intended users will determine the applicable financial reporting framework in these circumstances. ISA (NZ) 800 discusses the acceptability of financial reporting frameworks designed to meet the financial information needs of specific users.¹⁰
- A7. Deficiencies in the applicable financial reporting framework that indicate that the framework is not acceptable may be encountered after the audit engagement has been accepted. When use of that framework is prescribed by law or regulation, the requirements of paragraphs 19-20 apply. When use of that framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, as required by paragraph 16, new terms of the audit engagement are agreed to reflect the change in the framework as the previously agreed terms will no longer be accurate.

General purpose frameworks

- A8. At present, there is no objective and authoritative basis that has been generally recognised globally for judging the acceptability of general purpose frameworks. In the absence of such a basis, financial reporting standards established by organisations that are authorised or recognised to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities, provided the organisations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. Examples of such financial reporting standards include:
- ~~International Financial Reporting Standards (IFRSs) promulgated IFRS Accounting Standards issued~~ by the International Accounting Standards Board;
 - International Public Sector Accounting Standards (IPSASs) promulgated by the International Public Sector Accounting Standards Board; and
 - Accounting principles promulgated by an authorised or recognised standards setting organisation in a particular jurisdiction, provided the organisation follows an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.

¹⁰ ISA (NZ) 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 8

NZ-A8.1 Examples of applicable financial reporting requirements that apply in New Zealand include:

- New Zealand equivalents to ~~International Financial Reporting Standards-IFRS Accounting Standards~~ (NZ IFRS);
- New Zealand equivalents to ~~International Financial Reporting Standards-IFRS Accounting Standards~~ Reduced Disclosure Regime (NZ IFRS RDR);
- Public Benefit Entity Standards (PBE Standards);
- Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR);
- Reporting Requirements for Tier 3 Public Sector Entities (Tier 3 (PS) Standard);
- Reporting Requirements for Tier 3 Not-for-Profit Entities (Tier 3 (NFP) Standard);
- Reporting Requirements for Tier 4 Public Sector Entities (Tier 4 (PS) Standard);
- Reporting Requirements for Tier 4 Not-for-Profit Entities (Tier 4 (NFP) Standard);

These financial reporting standards are often identified as the applicable financial reporting framework in law or regulation governing the preparation of general purpose financial statements.

Financial reporting frameworks prescribed by law or regulation

- A9. In accordance with paragraph 6(a), the auditor is required to determine whether the financial reporting framework, to be applied in the preparation of the financial statements, is acceptable. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used in the preparation of general purpose financial statements for certain types of entities. In the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for general purpose financial statements prepared by such entities. In the event that the framework is not considered to be acceptable, paragraphs 19-20 apply.

Jurisdictions that do not have standards setting organisations or prescribed financial reporting frameworks

- A10. When an entity is registered or operating in a jurisdiction outside New Zealand that does not have an authorised or recognised standards setting organisation, or where use of the financial reporting framework is not prescribed by law or regulation, management identifies a financial reporting framework to be applied in the preparation of the financial statements. Appendix 2 contains guidance on determining the acceptability of financial reporting frameworks in such circumstances.

Agreement of the Responsibilities of Management (Ref: Para. 6(b))

- A11. An audit in accordance with ISAs (NZ) is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b).¹¹ In certain jurisdictions, such responsibilities may be specified in law or

¹¹ ISA (NZ) 200, paragraph A2

regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. ISAs (NZ) do not override law or regulation in such matters. However, the concept of an independent audit requires that the auditor's role does not involve taking responsibility for the preparation of the financial statements or for the entity's related internal control, and that the auditor has a reasonable expectation of obtaining the information necessary for the audit (including information obtained from outside of the general and subsidiary ledgers) in so far as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit. To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the audit engagement in paragraphs 9-12.

A12. The way in which the responsibilities for financial reporting are divided between management and those charged with governance will vary according to the resources and structure of the entity and any relevant law or regulation, and the respective roles of management and those charged with governance within the entity. In most cases, management is responsible for execution while those charged with governance have oversight of management. In some cases, those charged with governance will have, or will assume, responsibility for approving the financial statements or monitoring the entity's internal control related to financial reporting. In larger or more complex entities, or public entities, a subgroup of those charged with governance, such as an audit committee, may be charged with certain oversight responsibilities.

A13. [Amended by the NZAuASB:]

NZA13.1 ISA (NZ) 580 requires the auditor to request those charged with governance to provide written representations that they have fulfilled certain of their responsibilities.¹² It may therefore be appropriate to make those charged with governance aware that receipt of such written representations will be expected, together with written representations required by other ISAs (NZ) and, where necessary, written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements.

A14. [Amended by the NZAuASB:]

NZA14.1 Where those charged with governance will not acknowledge their responsibilities, or agree to provide the written representations, the auditor will be unable to obtain sufficient appropriate audit evidence.¹³ In such circumstances, it would not be appropriate for the auditor to accept the audit engagement, unless law or regulation requires the auditor to do so. In cases where the auditor is required to accept the audit engagement, the auditor may need to explain to management the importance of these matters, and the implications for the auditor's report.

Preparation of the Financial Statements (Ref: Para 6(b)(i))

A15. Most financial reporting frameworks include requirements relating to the presentation of the financial statements; for such frameworks, *preparation* of the financial statements in accordance with the financial reporting framework includes *presentation*. In the case of a fair presentation framework the importance of the reporting objective of fair

¹² ISA (NZ) 580, *Written Representations*, paragraphs 10-11

¹³ ISA (NZ) 580, paragraph A26

presentation is such that the premise agreed with management includes specific reference to fair presentation, or to the responsibility to ensure that the financial statements will “give a true and fair view” in accordance with the financial reporting framework.

Internal Control (Ref: Para. 6(b)(ii))

- A16. Management maintains such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity’s financial reporting objectives due to the inherent limitations of internal control.¹⁴
- A17. An independent audit conducted in accordance with the ISAs (NZ) does not act as a substitute for the maintenance of internal control necessary for the preparation of financial statements by management. Accordingly, the auditor is required to obtain the agreement of management that it acknowledges and understands its responsibility for internal control. However, the agreement required by paragraph 6(b)(ii) does not imply that the auditor will find that internal control maintained by management has achieved its purpose or will be free of deficiencies.
- A18. It is for management to determine what internal control is necessary to enable the preparation of the financial statements. The term “internal control” encompasses a wide range of activities within components of the system of internal control that may be described as the control environment; the entity’s risk assessment process; the entity’s process to monitor the system of internal control, the information system and communication; and control activities. This division, however, does not necessarily reflect how a particular entity may design, implement and maintain its internal control, or how it may classify any particular component.¹⁵ An entity’s internal control (in particular, its accounting books and records, or accounting systems) will reflect the needs of management, the complexity of the business, the nature of the risks to which the entity is subject, and relevant laws or regulation.
- A19. In some jurisdictions, law or regulation may refer to the responsibility of management for the adequacy of accounting books and records, or accounting systems. In some cases, general practice may assume a distinction between accounting books and records or accounting systems on the one hand, and internal control or controls on the other. As accounting books and records, or accounting systems, are an integral part of internal control as referred to in paragraph A18, no specific reference is made to them in paragraph 6(b)(ii) for the description of the responsibility management. To avoid misunderstanding, it may be appropriate for the auditor to explain to management the scope of this responsibility.

Additional Information (Ref: Para. 6(b)(iii)(b))

- A20. Additional information that the auditor may request from management for the purpose of the audit may include when applicable, matters related to other information in accordance with ISA (NZ) 720 (Revised). When the auditor expects to obtain other

¹⁴ ISA (NZ) 315 (Revised 2019), “Identifying and Assessing the Risks of Material Misstatement” paragraph 22 and Appendix 3

¹⁵ ISA (NZ) 315 (Revised 2019), paragraph A91 and Appendix 3

information after the date of the auditor's report, the terms of the audit engagement may also acknowledge the auditor's responsibilities relating to such other information including, if applicable, the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.

Considerations Relevant to Smaller Entities (Ref: Para. 6(b))

A21. One of the purposes of agreeing the terms of the audit engagement is to avoid misunderstanding about the respective responsibilities of management and the auditor. For example, when a third party has assisted with the preparation of the financial statements, it may be useful to remind management that the preparation of the financial statements in accordance with the applicable financial reporting framework remains its responsibility.

Agreement on Audit Engagement Terms

Agreeing the Terms of the Audit Engagement (Ref: Para. 9)

A22. The roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance structure of the entity and relevant law or regulation.

*Audit Engagement Letter or Other Form of Written Agreement*¹⁶ (Ref: Para. 10-11)

A23. It is in the interests of both the entity and the auditor that the auditor sends an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit. In some countries, however, the objective and scope of an audit and the responsibilities of management and of the auditor may be sufficiently established by law, that is, they prescribe the matters described in paragraph 10. Although in these circumstances paragraph 11 permits the auditor to include in the engagement letter only reference to the fact that relevant law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b), the auditor may nevertheless consider it appropriate to include the matters described in paragraph 10 in an engagement letter for the information of management.

Form and Content of the Audit Engagement Letter

A24. [Amended by the NZAuASB.]

NZA24.1 The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on ISA (NZ) 200.¹⁷ Paragraphs 6(b) and 12 of this ISA (NZ) deal with the description of the responsibilities of management. In addition to including the matters required by paragraph 10, an audit engagement letter may make reference to, for example:

¹⁶ In the paragraphs that follow, any reference to an audit engagement letter is to be taken as a reference to an audit engagement letter or other suitable form of written agreement.

¹⁷ ISA (NZ) 200, paragraphs 3-9

ISA (NZ) 210

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, ISAs (NZ), and the Professional and Ethical Standards, and other pronouncements of professional bodies to which the auditor adheres.
- The form of any other communication of results of the audit engagement.
- ~~The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with ISA (NZ) 701.¹⁸~~
- The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs (NZ).
- Arrangements regarding the planning and performance of the audit, including the composition of the engagement team.
- The expectation that those charged with governance will provide written representations (see also paragraph A13).
- The expectation that management, will provide access to all information of which management is aware that is relevant to the preparation of the financial statements, including an expectation that management will provide access to information relevant to disclosures.
- The agreement of management to make available to the auditor draft financial statements, including all information relevant to their preparation, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation of disclosures), and the other information¹⁹, if any, in time to allow the auditor to complete the audit in accordance with the proposed timetable.
- The agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- The basis on which fees are computed and any billing arrangements.
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.
- The expectation that management will provide a going concern assessment that covers a period of at least twelve months from the date of approval of the financial statements.²⁰
- The requirements for the auditor to describe in the auditor's report how the auditor evaluated management's assessment of the entity's ability to continue as a going concern in accordance with ISA (NZ) 570.²¹

¹⁸ ~~ISA (NZ) 701, *Communication Key Audit Matters in the Independent Auditor's Report*~~

¹⁹ As defined in ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

²⁰ See ISA (NZ) 570, *Going Concern*, paragraph 21

²¹ ISA (NZ) 570, paragraphs NZ34(b)(ii) and NZ35(b)

- The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with ISA (NZ) 701.²²

A25. When the auditor is not required to communicate key audit matters, it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

A26. When relevant, the following points could also be made in the audit engagement letter:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other staff of the entity.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- A reference to, and description of, the auditor's responsibilities under law, regulation or relevant ethical requirements that address reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity.
- Any restriction of the auditor's liability when such possibility exists.
- A reference to any further agreements between the auditor and the entity.
- Any obligations to provide audit working papers to other parties.

An example of an audit engagement letter is set out in Appendix 1.

Audits of Components

A27. When the auditor of a parent entity is also the auditor of a component, the factors that may influence the decision whether to send a separate audit engagement letter to the component include the following:

- Who appoints the component auditor;
- Whether a separate auditor's report is to be issued on the component;
- Legal requirements in relation to audit appointments;
- Degree of ownership by parent; and
- Degree of independence of the component management from the parent entity.

Responsibilities of Management Prescribed by Law or Regulation (Ref: Para. 11-12)

A28. If, in the circumstances described in paragraphs A23 and A29, the auditor concludes that it is not necessary to record certain terms of the audit engagement in an audit engagement letter, the auditor is still required by paragraph 11 to seek the written agreement from management that it acknowledges and understands that it has the responsibilities set out in paragraph 6(b). However, in accordance with paragraph 12, such written agreement may use the wording of the law or regulation if such law or

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

ISA (NZ) 210

regulation establishes responsibilities for management that are equivalent in effect to those described in paragraph 6(b). The accounting profession, audit standards setter, or audit regulator in a jurisdiction may have provided guidance as to whether the description in law or regulation is equivalent.

Considerations specific to public sector entities

A29. Law or regulation governing the operations of public sector audits generally mandate the appointment of a public sector auditor and commonly set out the public sector auditor's responsibilities and powers, including the power to access an entity's records and other information. When law or regulation prescribes in sufficient detail the terms of the audit engagement, the public sector auditor may nonetheless consider that there are benefits in issuing a fuller audit engagement letter than permitted by paragraph 11.

Recurring Audits (Ref: Para. 13)

A30. The auditor may decide not to send a new audit engagement letter or other written agreement each period. However, the following factors may make it appropriate to revise the terms of the audit engagement or to remind the entity of existing terms:

- Any indication that the entity misunderstands the objective and scope of the audit.
- Any revised or special terms of the audit engagement.
- A recent change of senior management.
- A significant change in ownership.
- A significant change in nature or size of the entity's business.
- A change in legal or regulatory requirements.
- A change in the financial reporting framework adopted in the preparation of the financial statements.
- A change in other reporting requirements.

Acceptance of a Change in the Terms of the Audit Engagement

Request to Change the Terms of the Audit Engagement (Ref: Para. 14)

A31. A request from the entity for the auditor to change the terms of the audit engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit as originally requested or a restriction on the scope of the audit engagement, whether imposed by management or caused by other circumstances. The auditor, as required by paragraph 14, considers the justification given for the request, particularly the implications of a restriction on the scope of the audit engagement.

A32. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of the service originally requested may be considered a reasonable basis for requesting a change in the audit engagement.

A33. In contrast, a change may not be considered reasonable if it appears that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory. An example might be where the auditor is unable to obtain sufficient appropriate audit

evidence regarding receivables and the entity asks for the audit engagement to be changed to a review engagement to avoid a qualified opinion or a disclaimer of opinion.

Request to Change to a Review or a Related Service (Ref: Para. 15)

- A34. Before agreeing to change an audit engagement to a review or a related service, an auditor who was engaged to perform an audit in accordance with ISAs (NZ) may need to assess, in addition to the matters referred to in paragraphs A31-A33 above, any legal or contractual implications of the change.
- A35. If the auditor concludes that there is reasonable justification to change the audit engagement to a review or a related service, the audit work performed to the date of change may be relevant to the changed engagement; however, the work required to be performed and the report to be issued would be those appropriate to the revised engagement. In order to avoid confusing the reader, the report on the related service would not include reference to:
- (a) The original audit engagement; or
 - (b) Any procedures that may have been performed in the original audit engagement, except where the audit engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.

Additional Considerations in Engagement Acceptance

Financial Reporting Standards Supplemented by Law or Regulation (Ref: Para. 18)

- A36. In some jurisdictions, law or regulation may supplement the financial reporting standards established by an authorised or recognised standards setting organisation with additional requirements relating to the preparation of financial statements. In those jurisdictions, the applicable financial reporting framework for the purposes of applying the ISAs (NZ) encompasses both the identified financial reporting framework and such additional requirements provided they do not conflict with the identified financial reporting framework. This may, for example, be the case when law or regulation prescribes disclosures in addition to those required by the financial reporting standards or when they narrow the range of acceptable choices that can be made within the financial reporting standards.²³

Financial Reporting Framework Prescribed by Law or Regulation—Other Matters Affecting Acceptance (Ref: Para. 19)

- A37. Law or regulation may prescribe that the wording of the auditor's opinion use the phrases "present fairly, in all material respects" or "give a true and fair view of ..." in a case where the auditor concludes that the applicable financial reporting framework prescribed by law or regulation would otherwise have been unacceptable. In this case, the terms of the prescribed wording of the auditor's report are significantly different from the requirements of ISAs (NZ) (see paragraph 21).

²³ ISA (NZ) 700 (Revised), paragraph 15, includes a requirement regarding the evaluation of whether the financial statements adequately refer to or describe the applicable financial reporting framework.

Auditor's Report Prescribed by Law or Regulation (Ref: Para. 21)

A38. ISAs (NZ) require that the auditor shall not represent compliance with ISAs (NZ) unless the auditor has complied with all of the ISAs (NZ) relevant to the audit.²⁴ When law or regulation prescribes the layout or wording of the auditor's report in a form or in terms that are significantly different from the requirements of ISAs (NZ) and the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor may consider including a statement in the auditor's report that the audit is not conducted in accordance with ISAs (NZ). The auditor is, however, encouraged to apply ISAs (NZ), including the ISAs (NZ) that address the auditor's report, to the extent practicable, notwithstanding that the auditor is not permitted to refer to the audit being conducted in accordance with ISAs (NZ).

Considerations Specific to Public Sector Entities

A39. In the public sector, specific requirements may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to a minister, the legislature or the public if the entity attempts to limit the scope of the audit.

²⁴ ISA (NZ) 200, paragraph 20

ISA (NZ) 210

Appendix 1

(Ref: Paras. A24-26)

Example of an Audit Engagement Letter

The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISA (NZ). It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 13 of this ISA (NZ)). It may be appropriate to seek legal advice that any proposed letter is suitable.

To the Board of Directors of ABC Company:²⁵

[The objective and scope of the audit]

You²⁶ have requested that we audit the financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

[The responsibilities of the auditor]

We will conduct our audit in accordance with ISAs (NZ). Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for

²⁵ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement. It is important to refer to the appropriate persons – see paragraph A22.

²⁶ Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control²⁷. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude and report on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

[The responsibilities of the directors and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 6(b) of this ISA (NZ) are therefore used).]

Our audit will be conducted on the basis that [those charged with governance]²⁸ acknowledge and understand that they have responsibility on behalf of the entity:

- (a) For the preparation and fair presentation of the financial statements in accordance with New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards²⁹;
- (b) For such internal control as [they] determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

²⁷ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

²⁸ Use terminology as appropriate in the circumstances, for example the directors, trustees or equivalent.

²⁹ Or if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards."

ISA (NZ) 210

(c) To provide us with³⁰:

- (i) Access to all information of which [management and the directors] are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- (ii) Additional information that we may request from [management or the directors] for the purpose of the audit, such as a going concern assessment that covers a period of at least twelve months from the date of approval of the financial statements and
- (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

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

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

[Other relevant information]

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

[Reporting]

[Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting on other information in accordance with ISA (NZ) 720 (Revised)]

The form and content of our report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

³⁰ See paragraph A24 for examples of other matters relating to the responsibilities of those charged with governance that may be included.

Appendix 2

(Ref: Para. A10)

Determining the Acceptability of General Purpose Frameworks**Jurisdictions that Do Not Have Authorised or Recognised Standards Setting Organisations or Financial Reporting Frameworks Prescribed by Law or Regulation**

1. As explained in paragraph A10 of this ISA (NZ), when an entity is registered or operating outside New Zealand in a jurisdiction that does not have an authorised or recognised standards setting organisation, or where use of the financial reporting framework is not prescribed by law or regulation, management identifies an applicable financial reporting framework. Practice in such jurisdictions is often to use the financial reporting standards established by one of the organisations described in paragraph A8 of this ISA (NZ).
2. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognised as the financial reporting framework for general purpose financial statements prepared by certain specified entities operating in that jurisdiction. When such a financial reporting framework is adopted, the auditor is required by paragraph 6(a) of this ISA (NZ) to determine whether the accounting conventions collectively can be considered to constitute an acceptable financial reporting framework for general purpose financial statements. When the accounting conventions are widely used in a particular jurisdiction, the accounting profession in that jurisdiction may have considered the acceptability of the financial reporting framework on behalf of the auditors. Alternatively, the auditor may make this determination by considering whether the accounting conventions exhibit attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 3 below), or by comparing the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable (see paragraph 4 below).
3. Acceptable financial reporting frameworks normally exhibit the following attributes that result in information provided in financial statements that is useful to the intended users:
 - (a) Relevance, in that the information provided in the financial statements is relevant to the nature of the entity and the purpose of the financial statements. For example, in the case of a business enterprise that prepares general purpose financial statements, relevance is assessed in terms of the information necessary to meet the common financial information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting the financial position, financial performance and cash flows of the business enterprise.
 - (b) Completeness, in that transactions and events, account balances and disclosures that could affect conclusions based on the financial statements are not omitted.
 - (c) Reliability, in that the information provided in the financial statements:
 - (i) Where applicable, reflects the economic substance of events and transactions and not merely their legal form; and
 - (ii) Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances.

ISA (NZ) 210

- (d) Neutrality, in that it contributes to information in the financial statements that is free from bias.
 - (e) Understandability, in that the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation.
4. The auditor may decide to compare the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable. For example, the auditor may compare the accounting conventions to IFRSs Accounting Standards. For an audit of a small entity, the auditor may decide to compare the accounting conventions to a financial reporting framework specifically developed for such entities by an authorised or recognised standards setting organisation. When the auditor makes such a comparison and differences are identified, the decision as to whether the accounting conventions adopted in the preparation of the financial statements constitute an acceptable financial reporting framework includes considering the reasons for the differences and whether application of the accounting conventions, or the description of the financial reporting framework in the financial statements, could result in financial statements that are misleading.
 5. A conglomeration of accounting conventions devised to suit individual preferences is not an acceptable financial reporting framework for general purpose financial statements. Similarly, a compliance framework will not be an acceptable financial reporting framework, unless it is generally accepted in the particular jurisdictions by preparers and users.

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the sStandard.

~~This conformity statement accompanies but is not part of ISA (NZ) 210.~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 210 *Agreeing the Terms of Audit Engagements*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

The following requirements are additional to ISA 210:

- In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both. (Ref: Para. NZ1.1)
- Professional and Ethical Standard 1 ~~(Revised)~~,³² requires assurance practitioners to comply with Auditing Standards; therefore auditors shall not sign an audit report that does not conform to the requirements of this ISA (NZ). In the extremely rare situation described in paragraph 21, the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ).
- ISA 210 requires the auditor to agree the terms of the engagement with management. In addition, ISA 580 requires the auditor to obtain written representations from management. In New Zealand, the auditor is required to agree the terms of the engagement and obtain written representations from those charged with governance because the responsibility for the financial statements on behalf of the entity generally rests with those charged with governance. Paragraphs amended in this way have been labelled as NZ paragraphs to indicate all paragraphs amended by the NZAuASB.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 210.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 210 *Agreeing the Terms of Audit Engagements (Compiled)*.

³² Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)~~Professional and Ethical Standard 1 (Revised), Code of Ethics for Assurance Practitioners~~

ASA 210 conforms to ISA 210.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 210 <i>Agreeing the Terms of Audit Engagements</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>

ISA (NZ) 220 (Revised)Issued 07/2110/25Compiled 06/23**INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 220 (REVISED)****Quality Management for an Audit of Financial Statements ~~(ISA (NZ) 220 (Revised))~~**

~~This Standard was issued on 8 July 2021 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 5 August 2021.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods beginning on or after 15 December 2022. However, early adoption is permitted.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 220 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 220 Quality Control for an Audit of Financial Statements.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including June 2022.~~

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 220 (Revised) issued by the External Reporting Board issued in July 2021.

COPYRIGHT

© External Reporting Board (“XRB”) 2021

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC.

Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-99-100508-3

ISA (NZ) 220 (Revised)**Explanatory note**

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 220 (Revised) *Quality Management for an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 220 (Revised) issued by the External Reporting Board in July 2021 (as amended to June 2022).

The revision of ISA (NZ) 220 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 220 (Revised)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 220 (REVISED)

QUALITY MANAGEMENT FOR AN AUDIT OF FINANCIAL STATEMENTS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Commencement and Application	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1
The Firm's System of Quality Management and Role of Engagement Teams	2–9
Effective Date	10
Objective	11
Definitions	12
Requirements	
Leadership Responsibilities for Managing and Achieving Quality on Audits	13–15
Relevant Ethical Requirements, Including Those Related to Independence	16–21
Acceptance and Continuance of Client Relationships and Audit Engagements	22–24
Engagement Resources	25–28
Engagement Performance	29–38
Monitoring and Remediation	39
Taking Overall Responsibility for Managing and Achieving Quality	40
Documentation	41
Application and Other Explanatory Material	
Scope of this ISA (NZ)	A1
The Firm's System of Quality Management and Role of Engagement Teams	A2–A14
Definitions	A15–A287
Leadership Responsibilities for Managing and Achieving Quality on Audits	A298–A387
Relevant Ethical Requirements, Including Those Related to Independence	A398–A498
Acceptance and Continuance of Client Relationships and Audit Engagements	A5049–A598
Engagement Resources	A6059–A798

ISA (NZ) 220 (Revised)

Engagement Performance	A ~~807~~ ~~9~~ –A10 ~~8~~ ~~7~~
Monitoring and Remediation	A10 ~~9~~ ~~8~~ –A11 ~~2~~ ~~1~~
Taking Overall Responsibility for Managing and Achieving Quality	A11 ~~3~~ ~~2~~ –A11 ~~6~~ ~~5~~
Documentation	A11 ~~7~~ ~~6~~ –A1 ~~20~~ ~~19~~

International Standard on Auditing (ISA) (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

ISA (NZ) 220 (Revised)

History of Amendments

Table of pronouncements – ISA (NZ) 220 (Revised) *Quality Management for an Audit of Financial Statements*

This table lists the pronouncements establishing and amending ISA (NZ) 220 (Revised).

Pronouncements	Date approved	~~Effective date~~ <u>Application</u>
International Standard on Auditing (New Zealand) 220 (Revised)	~~October 2025~~ <u>July 2021</u>	~~Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~	~~July 2021~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)~~	~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~

Table of Amended Paragraphs in ISA (NZ) 220 (Revised)		
Paragraph affected	How affected	By...[date]
Footnote 10	Amended	~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]~~
~~A1, A21A, A24, A25, A38, A53, A54, A60, A76, A92, Footnote 15, Footnote 38~~	~~Amended, inserted, deleted~~	~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]~~

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. This ISA (NZ) is to be read in conjunction with relevant ethical requirements. (Ref: Para. A1, A38)

The Firm's System of Quality Management and Role of Engagement Teams

2. Under Professional and Ethical Standard 3², the objective of the firm is to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements performed by the firm, that provides the firm with reasonable assurance that: (Ref: Para. A13–A14)
 - (a) The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 - (b) Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.³
3. This ISA (NZ) is premised on the basis that the firm is subject to PES 3 and PES 4⁴ or to national requirements that are at least as demanding. (Ref: Para. A2–A3)
4. The engagement team, led by the engagement partner, is responsible, within the context of the firm's system of quality management and through complying with the requirements of this ISA (NZ), for: (Ref: Para. A4–A11)
 - (a) Implementing the firm's responses to quality risks (i.e., the firm's policies or procedures) that are applicable to the audit engagement using information communicated by, or obtained from, the firm;
 - (b) Given the nature and circumstances of the audit engagement, determining whether to design and implement responses at the engagement level beyond those in the firm's policies or procedures; and
 - (c) Communicating to the firm information from the audit engagement that is required to be communicated by the firm's policies or procedures to support the design, implementation and operation of the firm's system of quality management.
5. Complying with the requirements in other ISAs (NZ) may provide information that is relevant to quality management at the engagement level. (Ref: Para. A12)

² Professional and Ethical Standard (PES) 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

³ PES 3, paragraph 14

⁴ Professional and Ethical Standard (PES) 4 *Engagement Quality Reviews*

ISA (NZ) 220 (Revised)

6. The public interest is served by the consistent performance of quality audit engagements through achieving the objective of this standard and other ISAs (NZ) for each engagement. A quality audit engagement is achieved through planning and performing the engagement and reporting on it in accordance with professional standards and applicable legal and regulatory requirements. Achieving the objectives of those standards and complying with the requirements of applicable law or regulation involves exercising professional judgement and exercising professional scepticism.
7. In accordance with ISA (NZ) 200,⁵ the engagement team is required to plan and perform an audit with professional scepticism and to exercise professional judgement. Professional judgement is exercised in making informed decisions about the courses of action that are appropriate to manage and achieve quality given the nature and circumstances of the audit engagement. Professional scepticism supports the quality of judgements made by the engagement team and, through these judgements, supports the overall effectiveness of the engagement team in achieving quality at the engagement level. The appropriate exercise of professional scepticism may be demonstrated through the actions and communications of the engagement team. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional scepticism, such as unconscious bias or resource constraints. (Ref: Para. A33–A36)

Scalability

8. The requirements of this ISA (NZ) are intended to be applied in the context of the nature and circumstances of each audit. For example:
 - (a) When an audit is carried out entirely by the engagement partner, which may be the case for an audit of a less complex entity, some requirements in this ISA (NZ) are not relevant because they are conditional on the involvement of other members of the engagement team. (Ref: Para. A13–A14)
 - (b) When an audit is not carried out entirely by the engagement partner or in an audit of an entity whose nature and circumstances are more complex, the engagement partner may assign the design or performance of some procedures, tasks or actions to other members of the engagement team.

The Engagement Partner's Responsibilities

9. The engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA (NZ). The term “the engagement partner shall take responsibility for...” is used for those requirements that the engagement partner is permitted to assign the design or performance of procedures, tasks or actions to appropriately skilled or suitably experienced members of the engagement team. For other requirements, this ISA (NZ) expressly intends that the requirement or responsibility be fulfilled by the engagement partner and the engagement partner may obtain information from the firm or other members of the engagement team. (Ref: Para. A2~~23~~–A2~~65~~)

⁵ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs 15–16 and A20–A24

ISA (NZ) 220 (Revised)**Effective Date**

10. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 15 December 2022. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ10.1 This Standard repeals ISA (NZ) 220 *Quality Management for an Audit of Financial Statements* issued in July 2021.

Objective

11. The objective of the auditor is to manage quality at the engagement level to obtain reasonable assurance that quality has been achieved such that:
- (a) The auditor has fulfilled the auditor's responsibilities, and has conducted the audit, in accordance with professional standards and applicable legal and regulatory requirements; and
 - (b) The auditor's report issued is appropriate in the circumstances.

Definitions

12. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
- (a) Engagement partner⁶ – The partner or other individual, appointed by the firm, who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.

Public Sector Considerations

[NZ] Engagement partner includes an employee of the Auditor-General, whom the Auditor-General has appointed under the Public Audit Act 2001 to act as an auditor and who:

- (i) Is responsible for the engagement and its performance, and for the report that is issued on behalf of the Auditor-General; and
- (ii) Where required, has the appropriate authority from a professional, legal or regulatory body.
- (b) Engagement quality review – An objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, performed by the engagement quality reviewer and completed on or before the date of the engagement report.
- (c) Engagement quality reviewer – A partner, other individual in the firm, or an external individual, appointed by the firm to perform the engagement quality review.
- (d) Engagement team – All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's

⁶ "Engagement partner," "partner," and "firm" is to be read as referring to their public sector equivalents where relevant.

ISA (NZ) 220 (Revised)

external expert⁷ and internal auditors who provide direct assistance on an engagement.⁸
(Ref: Para. A15–A2~~65~~)

- (e) Firm – A sole practitioner, partnership or corporation or other entity of assurance practitioners, or public sector equivalent. (Ref: Para. A2~~76~~)

Public Sector Considerations

[NZ] Firm includes the Auditor-General as defined in section 10(1) of the Public Audit Act 2001.

- (f) Network firm – A firm or entity that belongs to the firm’s network. (Ref: Para. A2~~87~~)
- (g) Network – A larger structure: (Ref: Para. A2~~87~~)
 - (i) That is aimed at cooperation, and
 - (ii) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality management policies or procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.
- (h) Partner [*Amended by the NZAuASB*]
- (i) Personnel – Partners and staff in the firm.
- (j) Professional standards [*Amended by the NZAuASB*]

NZ12.1 Professional standards – The standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board

- (k) Relevant ethical requirements – Principles of professional ethics and ethical requirements that are applicable to professional accountants when undertaking the audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* related to audits of financial statements, together with national requirements that are more restrictive.
- (l) Response (in relation to a system of quality management) – Policies or procedures designed and implemented by the firm to address one or more quality risk(s):
 - (i) Policies are statements of what should, or should not, be done to address a quality risk(s). Such statements may be documented, explicitly stated in communications or implied through actions and decisions.
 - (ii) Procedures are actions to implement policies.

⁷ ISA (NZ) 620, *Using the Work of an Auditor’s Expert*, paragraph 6(a), defines the term “auditor’s expert.”

⁸ ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted.

ISA (NZ) 220 (Revised)

- (m) Staff – Professionals, other than partners, including any experts the firm employs.
- NZ12.2 Partner – Any individual with authority to bind the firm with respect to the performance of an engagement governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services⁹ engagements).

Public Sector Considerations

[NZ] Partner includes an employee of the Auditor-General with authority to bind the Auditor-General with respect to the performance of an engagement governed by the Standards of the XRB (including audits or reviews of financial statements, or other assurance or related services engagements).

Requirements**Leadership Responsibilities for Managing and Achieving Quality on Audits**

13. The engagement partner shall take overall responsibility for managing and achieving quality on the audit engagement, including taking responsibility for creating an environment for the engagement that emphasises the firm's culture and expected behaviour of engagement team members. In doing so, the engagement partner shall be sufficiently and appropriately involved throughout the audit engagement such that the engagement partner has the basis for determining whether the significant judgements made, and the conclusions reached, are appropriate given the nature and circumstances of the engagement. (Ref: Para. A298–A387)
14. In creating the environment described in paragraph 13, the engagement partner shall take responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality and establish and communicate the expected behaviour of engagement team members, including emphasising: (Ref: Para. A310–A354)
 - (a) That all engagement team members are responsible for contributing to the management and achievement of quality at the engagement level;
 - (b) The importance of professional ethics, values and attitudes to the members of the engagement team;
 - (c) The importance of open and robust communication within the engagement team, and supporting the ability of engagement team members to raise concerns without fear of reprisal; and
 - (d) The importance of each engagement team member exercising professional scepticism throughout the audit engagement.
15. If the engagement partner assigns the design or performance of procedures, tasks or actions related to a requirement of this ISA (NZ) to other members of the engagement team to assist the engagement partner in complying with the requirements of this ISA (NZ), the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement through direction and supervision of those members of the engagement team, and review of their work. (Ref: Para. 9, A387)

⁹ As defined by XRB Au1 *Application of Auditing and Assurance Standards (Legislative Update)*

ISA (NZ) 220 (Revised)

Relevant Ethical Requirements, Including Those Related to Independence

16. The engagement partner shall have an understanding of the relevant ethical requirements, including those related to independence, that are applicable given the nature and circumstances of the audit engagement. (Ref: Para. A3~~98~~–A4~~32~~, A4~~98~~)
17. The engagement partner shall take responsibility for other members of the engagement team having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures, including those that address: (Ref: Para. A2~~43~~–A2~~65~~, A4~~10~~–A4~~54~~)
 - (a) Identifying, evaluating and addressing threats to compliance with relevant ethical requirements, including those related to independence;
 - (b) Circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches; and
 - (c) The responsibilities of members of the engagement team when they become aware of an instance of non-compliance with laws and regulations by the entity.¹⁰
18. If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists, the engagement partner shall evaluate the threat through complying with the firm's policies or procedures, using relevant information from the firm, the engagement team or other sources, and take appropriate action. (Ref: Para. A4~~43~~–A4~~54~~)
19. The engagement partner shall remain alert throughout the audit engagement, through observation and making ~~e~~inquiries as necessary, for breaches of relevant ethical requirements or the firm's related policies or procedures by members of the engagement team. (Ref: Para. A4~~65~~)
20. If matters come to the engagement partner's attention through the firm's system of quality management, or from other sources, that indicate that relevant ethical requirements applicable to the nature and circumstances of the audit engagement have not been fulfilled, the engagement partner, in consultation with others in the firm, shall take appropriate action. (Ref: Para. A4~~76~~)
21. Prior to dating the auditor's report, the engagement partner shall take responsibility for determining whether relevant ethical requirements, including those related to independence, have been fulfilled. (Ref: Para. A3~~98~~ and A4~~87~~)

Acceptance and Continuance of Client Relationships and Audit Engagements

22. The engagement partner shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships and audit engagements have been followed, and that conclusions reached in this regard are appropriate. (Ref: Para. A~~5049~~–A5~~32~~, A5~~98~~)

¹⁰ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

ISA (NZ) 220 (Revised)

23. The engagement partner shall take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement in accordance with the ISAs (NZ) and complying with the requirements of this ISA (NZ). (Ref: Para. A5~~34~~–A5~~76~~)
24. If the engagement team becomes aware of information that may have caused the firm to decline the audit engagement had that information been known by the firm prior to accepting or continuing the client relationship or specific engagement, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action. (Ref: Para. A5~~87~~)

Engagement Resources

25. The engagement partner shall determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the audit engagement, the firm's policies or procedures, and any changes that may arise during the engagement. (Ref: Para. A5~~9~~A60–A7~~10~~, A7~~34~~–A7~~54~~, A7~~98~~)
26. The engagement partner shall determine that members of the engagement team, and any auditor's external experts and internal auditors who provide direct assistance who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. (Ref: Para. A6~~23~~, A7~~21~~–A7~~54~~)
27. If, as a result of complying with the requirements in paragraphs 25 and 26, the engagement partner determines that resources assigned or made available are insufficient or inappropriate in the circumstances of the audit engagement, the engagement partner shall take appropriate action, including communicating with appropriate individuals about the need to assign or make available additional or alternative resources to the engagement. (Ref: Para. A7~~65~~–A7~~87~~)
28. The engagement partner shall take responsibility for using the resources assigned or made available to the engagement team appropriately, given the nature and circumstances of the audit engagement. (Ref: Para. A6~~43~~–A70~~69~~)

Engagement Performance*Direction, Supervision and Review*

29. The engagement partner shall take responsibility for the direction and supervision of the members of the engagement team and the review of their work. (Ref: Para. A80~~79~~)
30. The engagement partner shall determine that the nature, timing and extent of direction, supervision and review is: (Ref: Para. A8~~10~~–A8~~98~~, A9~~43~~–A9~~76~~)
 - (a) Planned¹¹ and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements; and

¹¹ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 9

ISA (NZ) 220 (Revised)

- (b) Responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team by the firm.
31. The engagement partner shall review audit documentation at appropriate points in time during the audit engagement, including audit documentation relating to: (Ref: Para. A~~9089~~–A~~932~~)
- (a) Significant matters;¹²
 - (b) Significant judgements, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
 - (c) Other matters that, in the engagement partner’s professional judgement, are relevant to the engagement partner’s responsibilities.
32. On or before the date of the auditor’s report, the engagement partner shall determine, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. (Ref: Para. A~~8089~~–A~~943~~)
33. Prior to dating the auditor’s report, the engagement partner shall review the financial statements and the auditor’s report, including, if applicable, the description of the key audit matters¹³ and related audit documentation, to determine that the report to be issued will be appropriate in the circumstances.¹⁴
34. The engagement partner shall review, prior to their issuance, formal written communications to management, those charged with governance or regulatory authorities. (Ref: Para. A~~987~~)

Consultation

35. The engagement partner shall: (Ref: Para. A~~998~~–A~~1024~~)
- (a) Take responsibility for the engagement team undertaking consultation on:
 - (i) Difficult or contentious matters and matters on which the firm’s policies or procedures require consultation; and
 - (ii) Other matters that, in the engagement partner’s professional judgement, require consultation;
 - (b) Determine that members of the engagement team have undertaken appropriate consultation during the audit engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm;
 - (c) Determine that the nature and scope of, and conclusions resulting from, such consultations are agreed with the party consulted; and

¹² ISA (NZ) 230, *Audit Documentation*, paragraph 8(c)

¹³ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

¹⁴ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* or ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

ISA (NZ) 220 (Revised)

- (d) Determine that conclusions agreed have been implemented.

Engagement Quality Review

- 36. For audit engagements for which an engagement quality review is required, the engagement partner shall: (Ref: Para. A10~~32~~)
 - (a) Determine that an engagement quality reviewer has been appointed;
 - (b) Cooperate with the engagement quality reviewer and inform other members of the engagement team of their responsibility to do so;
 - (c) Discuss significant matters and significant judgements arising during the audit engagement, including those identified during the engagement quality review, with the engagement quality reviewer; and
 - (d) Not date the auditor's report until the completion of the engagement quality review. (Ref: Para. A10~~34~~–A10~~65~~)

Differences of Opinion

- 37. If differences of opinion arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management, including those who provide consultation, the engagement team shall follow the firm's policies or procedures for dealing with and resolving such differences of opinion. (Ref: Para. A10~~76~~–A10~~87~~)
- 38. The engagement partner shall:
 - (a) Take responsibility for differences of opinion being addressed and resolved in accordance with the firm's policies or procedures;
 - (b) Determine that conclusions reached are documented and implemented; and
 - (c) Not date the auditor's report until any differences of opinion are resolved.

Monitoring and Remediation

- 39. The engagement partner shall take responsibility for: (Ref: Para. A10~~98~~–A11~~24~~)
 - (a) Obtaining an understanding of the information from the firm's monitoring and remediation process, as communicated by the firm including, as applicable, the information from the monitoring and remediation process of the network and across the network firms;
 - (b) Determining the relevance and effect on the audit engagement of the information referred to in paragraph 39(a) and take appropriate action; and
 - (c) Remaining alert throughout the audit engagement for information that may be relevant to the firm's monitoring and remediation process and communicate such information to those responsible for the process.

ISA (NZ) 220 (Revised)**Taking Overall Responsibility for Managing and Achieving Quality**

40. Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement. In doing so, the engagement partner shall determine that: (Ref: Para. ~~A112~~A113–~~A116~~5)
- (a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgements made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
 - (b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account in complying with the requirements of this ISA (NZ).

Documentation

41. In applying ISA (NZ) 230,¹⁵ the auditor shall include in the audit documentation: (Ref: Para. ~~A117~~6–~~A120~~19)
- (a) Matters identified, relevant discussions with personnel, and conclusions reached with respect to:
 - (i) Fulfillment of responsibilities relating to relevant ethical requirements, including those related to independence.
 - (ii) The acceptance and continuance of the client relationship and audit engagement.
 - (b) The nature and scope of, and conclusions resulting from, consultations undertaken during the audit engagement and how such conclusions were implemented.
 - (c) If the audit engagement is subject to an engagement quality review, that the engagement quality review has been completed on or before the date of the auditor's report.

* * *

Application and Other Explanatory Material**Scope of this ISA (NZ) (Ref: Para. 1)**

- A1. This ISA (NZ) applies to all audits of financial statements, including audits of group financial statements. ISA (NZ) 600 (Revised)¹⁶ deals with special considerations that apply to an audit of group financial statements and when component auditors are involved. ISA (NZ) 600 (Revised), adapted as necessary in the circumstances, may also be useful in an audit of financial statements when the engagement team includes individuals from another firm. For example, ISA (NZ) 600 (Revised) may be useful when involving such an individual to attend

¹⁵ ISA (NZ) 230, paragraphs 8–11 and A6

¹⁶ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

ISA (NZ) 220 (Revised)

a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service centre at a remote location.

The Firm's System of Quality Management and Role of Engagement Teams (Ref: Para. 2–9)

- A2. PES 3 deals with a firm's responsibilities for designing, implementing and operating its system of quality management.
- A3. Firms or national requirements may use different terminology or frameworks to describe the components of the system of quality management. National requirements that deal with the firm's responsibilities to design, implement and operate a system of quality management are at least as demanding as PES 3 when they address the requirements of PES 3 and impose obligations on the firm to achieve the objective of PES 3.

The Engagement Team's Responsibilities Relating to the Firm's System of Quality Management (Ref: Para. 4)

- A4. Quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement. In accordance with PES 3, the firm is responsible for communicating information enables the engagement team to understand and carry out their responsibilities relating to performing engagements. For example, such communications may cover policies or procedures to undertake consultations with designated individuals in certain situations involving complex technical or ethical matters, or to involve firm-designated experts in specific engagements to perform audit procedures related to particular matters (e.g., the firm may specify that firm-designated credit experts are to be involved in auditing expected credit loss allowances in audits of financial institutions).
- A5. Firm-level responses may include policies or procedures established by a network, or by other firms, structures or organisations within the same network (network requirements or network services are described further in [PES 3 within the "Network Requirements or Network Services" section]).¹⁷ The requirements of this ISA (NZ) are based on the premise that the firm is responsible for taking the necessary action to enable engagement teams to implement or use network requirements or network services on the audit engagement (for example, a requirement to use an audit methodology developed for use by a network firm). Under PES 3, the firm is responsible for determining how network requirements or network services are relevant to, and are taken into account in, the firm's system of quality management.¹⁸
- A6. Some firm-level responses to quality risks are not performed at the engagement level but are nevertheless relevant when complying with the requirements of this ISA (NZ). For example, firm-level responses that the engagement team may be able to depend on when complying with the requirements of this ISA (NZ) include:
- Personnel recruitment and professional training processes;

¹⁷ PES 3, paragraph 49(b)

¹⁸ PES 3, paragraph 49(a)

ISA (NZ) 220 (Revised)

- The information technology (IT) applications that support the firm's monitoring of independence;
 - The development of IT applications that support the acceptance and continuance of client relationships and audit engagements; and
 - The development of audit methodologies and related implementation tools and guidance.
- A7. Due to the specific nature and circumstances of each audit engagement and changes that may occur during the audit engagement, a firm cannot identify all quality risks that may arise at the engagement level or set forth all relevant and appropriate responses. Accordingly, the engagement team exercises professional judgement in determining whether to design and implement responses, beyond those set forth in the firm's policies or procedures, at the engagement level to meet the objective of this ISA (NZ).¹⁹
- A8. The engagement team's determination of whether engagement level responses are necessary (and, if so, what those responses are) is influenced by the requirements of this ISA (NZ), the engagement team's understanding of the nature and circumstances of the engagement and any changes during the audit engagement. For example, unanticipated circumstances may arise during the engagement that may cause the engagement partner to request the involvement of appropriately experienced personnel in addition to those initially assigned or made available.
- A9. The relative balance of the engagement team's efforts to comply with the requirements of this ISA (NZ) (i.e., between implementing the firm's responses and designing and implementing engagement specific responses beyond those set forth in the firm's policies or procedures) may vary. For example, the firm may design an audit program to be used in circumstances that are applicable to the audit engagement (e.g., an industry-specific audit program). Other than determining the timing and extent of procedures to be performed, there may be little or no need for supplemental audit procedures to be added to the audit program at the engagement level. Alternatively, the engagement team's actions in complying with the engagement performance requirements of this ISA (NZ) may be more focused on designing and implementing responses at the engagement level to deal with the specific nature and circumstances of the engagement (e.g., planning and performing procedures to address risks of material misstatement not contemplated by the firm's audit programs).
- A10. Ordinarily, the engagement team may depend on the firm's policies or procedures in complying with the requirements of this ISA (NZ), unless:
- The engagement team's understanding or practical experience indicates that the firm's policies or procedures will not effectively address the nature and circumstances of the engagement; or
 - Information provided by the firm or other parties, about the effectiveness of such policies or procedures suggests otherwise (e.g., information provided by the firm's monitoring activities, external inspections or other relevant sources, indicates that the firm's policies or procedures are not operating effectively).

¹⁹ ISA (NZ) 200 requires the auditor to exercise professional judgement in planning and performing an audit of financial statements.

ISA (NZ) 220 (Revised)

A11. If the engagement partner becomes aware (including through being informed by other members of the engagement team) that the firm's responses to quality risks are ineffective in the context of the specific engagement or the engagement partner is unable to depend on the firm's policies or procedures, the engagement partner communicates such information promptly to the firm in accordance with paragraph 39(c) as such information is relevant to the firm's monitoring and remediation process. For example, if an engagement team member identifies that an audit software program has a security weakness, timely communication of such information to the appropriate personnel enables the firm to take steps to update and reissue the audit program. See also paragraph A70 in respect of sufficient and appropriate resources.

Information Relevant to Quality Management at the Engagement Level (Ref: Para. 6)

A12. Complying with the requirements in other ISAs (NZ) may provide information that is relevant to quality management at the engagement level. For example, the understanding of the entity and its environment required to be obtained under ISA (NZ) 315 (Revised 2019)²⁰ provides information that may be relevant to complying with the requirements of this ISA (NZ). Such information may be relevant to the determination of:

- The nature of resources to deploy for specific audit areas, such as the use of appropriately experienced team members for high risk areas, or the involvement of experts to deal with complex matters;
- The amount of resources to allocate to specific audit areas, such as the number of team members assigned to attend the physical inventory count at multiple locations;
- The nature, timing and extent of review of the work performed by members of the team based on the assessed risks of material misstatement; or
- The allocation of the budgeted audit hours, including allocating more time, and the time of more experienced engagement team members to those areas where there are more risks of material misstatement or the identified risks are assessed as higher.

Scalability (Ref: Para. 2, 8)

A13. In a smaller firm, the firm's policies or procedures may designate an engagement partner, on behalf of the firm, to design many of the responses to the firm's quality risks, as doing so may be a more effective approach to designing and implementing responses as part of the firm's system of quality management. Additionally, a smaller firm's policies or procedures may be less formal. For example, in a very small firm with a relatively small number of audit engagements, the firm may determine that there is no need to establish a firm-wide system to monitor independence, and rather, independence will be monitored at the individual engagement level by the engagement partner.

A14. The requirements relating to direction, supervision and review of the work of other members of the engagement team are only relevant if there are members of the engagement team other than the engagement partner.

²⁰ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

ISA (NZ) 220 (Revised)

Definitions

Engagement Team (Ref: Para. 12(d))

- A15. The engagement team may be organised in a variety of ways. For example, engagement team members may be located together or across different geographic locations and may be organised in groups by the activity they are performing. Regardless of how the engagement team is organised, any individual who performs audit procedures²¹ on the audit engagement is a member of the engagement team.
- A16. The definition of an engagement team focuses on individuals who perform audit procedures on the audit engagement. Audit evidence, which is necessary to support the auditor's opinion and report, is primarily obtained from audit procedures performed during the course of the audit.²² Audit procedures comprise risk assessment procedures²³ and further audit procedures.²⁴ As explained in ISA (NZ) 500, audit procedures include inspection, observation, confirmation, recalculation, reperformance, analytical procedures and inquiry, often performed in some combination.²⁵ Other ISAs (NZ) may also include specific procedures to obtain audit evidence, for example, ISA (NZ) 520.²⁶
- A17. Engagement teams include personnel and may also include other individuals who perform audit procedures who are from:
- (a) A network firm; or
 - (b) A firm that is not a network firm, or another service provider.²⁷
- For example, an individual from another firm may perform audit procedures on the financial information of a component in a group audit engagement, attend a physical inventory count or inspect physical fixed assets at a remote location.
- A18. Engagement teams may also include individuals from service delivery centres who perform audit procedures. For example, it may be determined that specific tasks that are repetitive or specialised in nature will be performed by a group of appropriately skilled personnel and the engagement team therefore includes such individuals. Service delivery centres may be established by the firm, the network, or by other firms, structures or organisations within the same network. For example, a centralised function may be used to facilitate external confirmation procedures.
- A19. Engagement teams may include individuals with expertise in a specialised area of accounting or auditing who perform audit procedures on the audit engagement, for example, individuals with expertise in accounting for income taxes, or in analysing complex information produced

²¹ ISA (NZ) 500, *Audit Evidence*, paragraph A10

²² ISA (NZ) 200, paragraph ~~NZA360~~

²³ ISA (NZ) 315 (Revised 2019) provides requirements related to risk assessment procedures.

²⁴ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, provides requirements related to further audit procedures, including tests of controls and substantive procedures.

²⁵ ISA (NZ) 500, paragraphs A14–A25

²⁶ ISA (NZ) 520, *Analytical Procedures*

²⁷ PES 3, paragraph 16(v)

ISA (NZ) 220 (Revised)

by automated tools and techniques for the purpose of identifying unusual or unexpected relationships. An individual is not a member of the engagement team if that individual's involvement with the engagement is limited to consultation. Consultations are addressed in paragraphs 35 and A98–A101.

- A20. If the audit engagement is subject to an engagement quality review, the engagement quality reviewer, and any other individuals performing the engagement quality review, are not members of the engagement team. Such individuals may be subject to specific independence requirements.
- A21. An internal auditor providing direct assistance and an auditor's external expert whose work is used in the engagement are not members of the engagement team.²⁸ ISA (NZ) 610 (Revised) 2013 and ISA (NZ) 620 provide requirements and guidance for the auditor when using the work of internal auditors in a direct assistance capacity or when using the work of an external expert, respectively. Compliance with these ISAs (NZ) requires the auditor to obtain sufficient appropriate audit evidence on the work performed by an internal auditor providing direct assistance and perform audit procedures on the work of an auditor's expert.
- A22~~1A~~. When joint auditors conduct an audit, the joint engagement partners and their engagement teams collectively constitute the "engagement partner" and "engagement team" for the purposes of the ISAs (NZ). This ISA (NZ) does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor.

The Engagement Partner's Responsibilities (Ref: Para. 9, 12(d))

- A23~~2~~. When this ISA (NZ) expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the engagement partner may need to obtain information from the firm or other members of the engagement team to fulfil the requirement (e.g., information to make the required decision or judgement). For example, the engagement partner is required to determine that members of the engagement team collectively have the appropriate competence and capabilities to perform the audit engagement. To make a judgement on whether the competence and capabilities of the engagement team is appropriate, the engagement partner may need to use information compiled by the engagement team or from the firm's system of quality management.

The Application of Firm Policies or Procedures by Members of the Engagement Team (Ref: Para. 9, 12(d), 17)

- A24~~3~~. Within the context of the firm's system of quality management, engagement team members from the firm are responsible for implementing the firm's policies or procedures that are applicable to the audit engagement. As engagement team members from another firm are neither partners nor staff of the engagement partner's firm, they may not be subject to the firm's system of quality management or the firm's policies or procedures. Further, the policies or procedures of another firm may not be similar to that of the engagement partner's firm. For example, policies or procedures regarding direction, supervision and review may

²⁸ See ISA (NZ) 620, paragraphs 12–13 and ISA (NZ) 610 (Revised 2013), paragraphs 21–25.

ISA (NZ) 220 (Revised)

be different, particularly when the other firm is in a jurisdiction with a different legal system, language or culture than that of the engagement partner's firm. Accordingly, if the engagement team includes individuals who are from another firm, different actions may need to be taken by the firm or the engagement partner to implement the firm's policies or procedures in respect of the work of those individuals.

A254. In particular, the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether an individual from another firm:

- Has the appropriate competence and capabilities to perform the audit engagement. For example, the individual would not be subject to the firm's recruitment and training processes and therefore the firm's policies or procedures may state that this determination can be made through other actions such as obtaining information from the other firm or a licensing or registration body. Paragraphs 26 and A59–A64 of ISA (NZ) 600 (Revised) contain guidance on obtaining an understanding of the competence and capabilities of component auditors.
- Understands the ethical requirements that are relevant to the group audit engagement. For example, the individual would not be subject to the firm's training in respect of the firm's policies or procedures for relevant ethical requirements. The firm's policies or procedures may state that this understanding is obtained through other actions such as providing information, manuals, or guides containing the provisions of the relevant ethical requirements applicable to the audit engagement to the individual.
- Will confirm independence. For example, individuals who are not personnel may not be able to complete independence declarations directly on the firm's independence systems. The firm's policies or procedures may state that such individuals can provide evidence of their independence in relation to the audit engagement in other ways, such as written confirmation.

A265. When firm policies or procedures require specific activities to be undertaken in certain circumstances (e.g., consultation on a particular matter), it may be necessary for the firm's related policies or procedures to be communicated to individuals who are not personnel. Such individuals are then able to alert the engagement partner if the circumstance arises, and this enables the engagement partner to comply with the firm's policies or procedures. For example, in a group audit engagement, if a component auditor is performing audit procedures on the financial information of a component and identifies a difficult or contentious matter that is relevant to the group financial statements and subject to consultation²⁹ under the group auditor's policies or procedures, the component auditor is able to alert the group auditor about the matter.

Firm (Ref: Para. 12(e))

A276. The definition of "firm" in relevant ethical requirements may differ from the definition set out in this ISA (NZ).

²⁹ See paragraph 35.

ISA (NZ) 220 (Revised)

“Network” and “Network Firm” (Ref: Para. 12(f)–12(g))

A287. The definitions of “network” or “network firm” in relevant ethical requirements may differ from those set out in this ISA (NZ). Professional and Ethical Standard 1 also provides guidance in relation to the terms “network” and “network firm.” Networks and the other network firms may be structured in a variety of ways, and are in all cases external to the firm. The provisions in this ISA (NZ) in relation to networks also apply to any structures or organisations that do not form part of the firm, but that exist within the network.

Leadership Responsibilities for Managing and Achieving Quality on Audits (Ref: Para. 13–15)

Taking Overall Responsibility for Managing and Achieving Quality

A298. PES 3 requires the firm to establish quality objectives that address the firm’s governance and leadership that supports the design, implementation and operation of the system of quality management. The engagement partner’s responsibility for managing and achieving quality is supported by a firm culture that demonstrates a commitment to quality. In addressing the requirements in paragraphs 13 and 14 of this ISA (NZ), the engagement partner may communicate directly to other members of the engagement team and reinforce this communication through personal conduct and actions (e.g., leading by example). A culture that demonstrates a commitment to quality is further shaped and reinforced by the engagement team members as they demonstrate expected behaviours when performing the engagement.

Scalability

A3029. The nature and extent of the actions of the engagement partner to demonstrate the firm’s commitment to quality may depend on a variety of factors including the size, structure, geographical dispersion and complexity of the firm and the engagement team, and the nature and circumstances of the audit engagement. With a smaller engagement team with few engagement team members, influencing the desired culture through direct interaction and conduct may be sufficient, whereas for a larger engagement team that is dispersed over many locations, more formal communications may be necessary.

Sufficient and Appropriate Involvement

A310. Being sufficiently and appropriately involved throughout the audit engagement may be demonstrated by the engagement partner in different ways, including:

- Taking responsibility for the nature, timing and extent of the direction and supervision of the members of the engagement team, and the review of their work in complying with the requirements of this ISA (NZ); and
- Varying the nature, timing and extent of such direction, supervision and review in the context of the nature and circumstances of the engagement.

ISA (NZ) 220 (Revised)

Communication

A321. Communication is the means through which the engagement team shares relevant information on a timely basis to comply with the requirements of this ISA (NZ), thereby contributing to the achievement of quality on the audit engagement. Communication may be between or among members of the engagement team, or with:

- (a) The firm, (e.g., individuals performing activities within the firm's system of quality management, including those assigned ultimate or operational responsibility for the firm's system of quality management);
- (b) Others involved in the audit (e.g., internal auditors who provide direct assistance³⁰ or an auditor's external expert³¹); and
- (c) Parties that are external to the firm (e.g., management, those charged with governance or regulatory authorities).

A332. The nature and circumstances of the audit engagement may affect the engagement partner's decisions regarding the appropriate means of effective communication with the members of the engagement team. For example, to support appropriate direction, supervision and review, the firm may use IT applications to facilitate the communication between the members of the engagement team when they are performing work across different geographical locations.

Professional Scepticism (Ref: Para. 7)

A343. The engagement partner is responsible for emphasising the importance of each engagement team member exercising professional scepticism throughout the audit engagement. Conditions inherent in some audit engagements can create pressures on the engagement team that may impede the appropriate exercise of professional scepticism when designing and performing audit procedures and evaluating audit evidence. Accordingly, when developing the overall audit strategy in accordance with ISA (NZ) 300, the engagement team may need to consider whether such conditions exist in the audit engagement and, if so, what actions the firm or the engagement team may need to undertake to mitigate such impediments.

A354. Impediments to the exercise of professional scepticism at the engagement level may include, but are not limited to:

- Budget constraints, which may discourage the use of sufficiently experienced or technically qualified resources, including experts, necessary for audits of entities where technical expertise or specialised skills are needed for effective understanding, assessment of and responses to risks and informed questioning of management.
- Tight deadlines, which may negatively affect the behaviour of those who perform the work as well as those who direct, supervise and review. For example, external time pressures may create restrictions to analysing complex information effectively.

³⁰ See ISA (NZ) 610 (Revised 2013), paragraph A41.

³¹ See ISA (NZ) 620, paragraphs 11(c) and A30.

ISA (NZ) 220 (Revised)

- Lack of cooperation or undue pressures imposed by management, which may negatively affect the engagement team's ability to resolve complex or contentious issues.
- Insufficient understanding of the entity and its environment, its system of internal control and the applicable financial reporting framework, which may constrain the ability of the engagement team to make appropriate judgements and an informed questioning of management's assertions.
- Difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others, which may cause the engagement team to bias the selection of sources of audit evidence and seek audit evidence from sources that are more easily accessible.
- Overreliance on automated tools and techniques, which may result in the engagement team not critically assessing audit evidence.

A365. Unconscious or conscious auditor biases may affect the engagement team's professional judgements, including for example, in the design and performance of audit procedures, or the evaluation of audit evidence. Examples of unconscious auditor biases that may impede the exercise of professional scepticism, and therefore the reasonableness of the professional judgements made by the engagement team in complying with the requirements of this ISA (NZ), may include:

- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency to think or make decisions as a group that discourages creativity or individual responsibility.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgements or decisions.
- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favour output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.

A376. Possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism at the engagement level may include:

- Remaining alert to changes in the nature or circumstances of the audit engagement that necessitate additional or different resources for the engagement, and requesting additional or different resources from those individuals within the firm responsible for allocating or assigning resources to the engagement.

ISA (NZ) 220 (Revised)

- Explicitly alerting the engagement team to instances or situations when vulnerability to unconscious or conscious auditor biases may be greater (e.g., areas involving greater judgement) and emphasising the importance of seeking advice from more experienced members of the engagement team in planning and performing audit procedures.
- Changing the composition of the engagement team, for example, requesting that more experienced individuals with greater skills or knowledge or specific expertise are assigned to the engagement.
- Involving more experienced members of the engagement team when dealing with members of management who are difficult or challenging to interact with.
- Involving members of the engagement team with specialised skills and knowledge or an auditor's expert to assist the engagement team with complex or subjective areas of the audit.
- Modifying the nature, timing and extent of direction, supervision or review by involving more experienced engagement team members, more in-person oversight on a more frequent basis or more in-depth reviews of certain working papers for:
 - Complex or subjective areas of the audit;
 - Areas that pose risks to achieving quality on the audit engagement;
 - Areas where there may be a higher risk of material misstatement, including a risk of material misstatement due to fraud~~with a fraud risk~~; and
 - Identified or suspected non-compliance with laws or regulations.
- Setting expectations for:
 - Less experienced members of the engagement team to seek advice frequently and in a timely manner from more experienced engagement team members or the engagement partner; and
 - More experienced members of the engagement team to be available to less experienced members of the engagement team throughout the audit engagement and to respond positively and in a timely manner to their insights, requests for advice or assistance.
- Communicating with those charged with governance when management imposes undue pressure or the engagement team experiences difficulties in obtaining access to records, facilities, certain employees, customers, vendors or others from whom audit evidence may be sought.

ISA (NZ) 220 (Revised)

Assigning Procedures, Tasks, or Actions to Other Members of the Engagement Team (Ref: Para. 15)

A3~~87~~. Being sufficiently and appropriately involved throughout the audit engagement when procedures, tasks or actions have been assigned to other members of the engagement team may be demonstrated by the engagement partner in different ways, including:

- Informing assignees about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and to provide any other necessary instructions and relevant information.
- Direction and supervision of the assignees.
- Review of the assignees' work to evaluate the conclusions reached, in addition to the requirements in paragraphs 29–34.

Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 16–21)

Relevant Ethical Requirements (Ref: Para. 1, 16–21)

[A39. \[Amended by the NZAuASB\]](#)

NZ A3~~98~~. ISA (NZ) 200³² requires that the auditor comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. Relevant ethical requirements may vary depending on the nature and circumstances of the engagement. For example, certain requirements related to independence may be applicable only when performing audits of FMC reporting entities considered to have a higher level of public accountability. ISA (NZ) 600 (Revised) includes additional requirements and guidance to those in this ISA (NZ) regarding communications about relevant ethical requirements with component auditors.

A~~40~~39. Based on the nature and circumstances of the audit engagement, certain law, regulation or aspects of relevant ethical requirements, such as those pertaining to non-compliance with laws or regulations, may be relevant to the engagement, for example laws or regulations dealing with money laundering, corruption, or bribery.

A4~~10~~. The firm's information system and the resources provided by the firm may assist the engagement team in understanding and fulfilling relevant ethical requirements applicable to the nature and circumstances of the audit engagement. For example, the firm may:

- Communicate the independence requirements to engagement teams.
- Provide training for engagement teams on relevant ethical requirements.
- Establish manuals and guides (i.e., intellectual resources) containing the provisions of the relevant ethical requirements and guidance on how they are applied in the nature and circumstances of the firm and its engagements.

³² ISA (NZ) 200, paragraphs 1~~6~~4 and ~~A16–A19~~[A22–A25](#)

ISA (NZ) 220 (Revised)

- Assign personnel to manage and monitor compliance with relevant ethical requirements (e.g., PES 3 requires that the firm obtains, at least annually, a documented confirmation of compliance with the independence requirements from all personnel required by relevant ethical requirements to be independent) or provide consultation on matters related to relevant ethical requirements.
- Establish policies or procedures for engagement team members to communicate relevant and reliable information to appropriate parties within the firm or to the engagement partner, such as policies or procedures for engagement teams to:
 - Communicate information about client engagements and the scope of services, including non-assurance services, to enable the firm to identify threats to independence during the period of the engagement and during the period covered by the subject matter.
 - Communicate circumstances and relationships that may create a threat to independence, so that the firm can evaluate whether such a threat is at an acceptable level and if it is not, address the threat by eliminating it or reducing it to an acceptable level.
 - Promptly communicate any breaches of the relevant ethical requirements, including those related to independence.

A4~~2~~¹. The engagement partner may take into account the information, communication, and resources described in paragraph A40 when determining whether the engagement partner may depend on the firm's policies or procedures in complying with relevant ethical requirements.

A4~~3~~². Open and robust communication between the members of the engagement team about relevant ethical requirements may also assist in:

- Drawing the attention of engagement team members to relevant ethical requirements that may be of particular significance to the audit engagement; and
- Keeping the engagement partner informed about matters relevant to the engagement team's understanding and fulfillment of relevant ethical requirements and the firm's related policies or procedures.

Identifying and Evaluating Threats to Compliance with Relevant Ethical Requirements (Ref: Para. 17–18)

A4~~3~~³. In accordance with PES 3, the firm's responses to address the quality risks in relation to relevant ethical requirements, including those related to independence for engagement team members, include policies or procedures for identifying, evaluating and addressing threats to compliance with the relevant ethical requirements.

A4~~5~~⁴. Relevant ethical requirements may contain provisions regarding the identification and evaluation of threats and how they are to be dealt with. For example, Professional and Ethical Standard 1 explains that a self-interest threat to compliance with the fundamental principle of professional competence and due care may arise if the fee quoted for an audit engagement

ISA (NZ) 220 (Revised)

is so low that it might be difficult to perform the engagement in accordance with professional standards.³³

Breaches of Relevant Ethical Requirements (Ref: Para. 19)

A465. In accordance with PES 3, the firm is required to establish policies or procedures for identifying, communicating, evaluating and reporting of any breaches of relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.

Taking Appropriate Action (Ref: Para. 20)

A476. Appropriate actions may include, for example:

- Following the firm's policies or procedures regarding breaches of relevant ethical requirements, including communicating to or consulting with the appropriate individuals so that appropriate action can be taken, including as applicable, disciplinary action(s).
- Communicating with those charged with governance.
- Communicating with regulatory authorities or professional bodies. In some circumstances, communication with regulatory authorities may be required by law or regulation.
- Seeking legal advice.
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Prior to Dating the Auditor's Report (Ref: Para. 21)

A487. ISA (NZ) 700 (Revised) requires that the auditor's report include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and that the auditor has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.³⁴ Performing the procedures required by paragraphs 16–21 of this ISA (NZ) provides the basis for these statements in the auditor's report.

Considerations Specific to Public Sector Entities

A498. Statutory measures may provide safeguards for the independence of public sector auditors. However, public sector auditors or audit firms carrying out public sector audits on behalf of the statutory auditor may, depending on the terms of the mandate in a particular jurisdiction, need to adapt their approach to promote compliance with paragraph 16. This may include, where the public sector auditor's mandate does not permit withdrawal from the audit engagement, disclosure through a public report of circumstances that have arisen that would, if they were in the private sector, lead the auditor to withdraw.

³³ PES 1, paragraph 330.3 A2

³⁴ ISA (NZ) 700 (Revised), paragraph 28(c)

ISA (NZ) 220 (Revised)**Acceptance and Continuance of Client Relationships and Audit Engagements** (Ref: Para. 22–24)

A5049. PES 3 requires the firm to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements.

A510. Information such as the following may assist the engagement partner in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate:

- The integrity and ethical values of the principal owners, key management and those charged with governance of the entity;
- Whether sufficient and appropriate resources are available to perform the engagement;
- Whether management and those charged with governance have acknowledged their responsibilities in relation to the engagement;
- Whether the engagement team has the competence and capabilities, including sufficient time, to perform the engagement; and
- Whether significant matters that have arisen during the current or previous engagement have implications for continuing the engagement.

A524. Under PES 3, for acceptance and continuance decisions, the firm is required to make judgements about the firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements. The engagement partner may use the information considered by the firm in this regard in determining whether the conclusions reached regarding the acceptance and continuance of client relationships and audit engagements are appropriate. If the engagement partner has concerns regarding the appropriateness of the conclusions reached, the engagement partner may discuss the basis for those conclusions with those involved in the acceptance and continuance process.

A532. If the engagement partner is directly involved throughout the firm's acceptance and continuance process, the engagement partner will be aware of the information obtained or used by the firm, in reaching the related conclusions. Such direct involvement may also provide a basis for the engagement partner's determination that the firm's policies or procedures have been followed and that the conclusions reached are appropriate.

A543. Information obtained during the acceptance and continuance process may assist the engagement partner in complying with the requirements of this ISA (NZ) and making informed decisions about appropriate courses of action. Such information may include:

- Information about the size, complexity and nature of the entity, including whether it is a group audit, the industry in which it operates and the applicable financial reporting framework;
- The entity's timetable for reporting, such as at interim and final stages;
- In relation to group audits, the nature of the control relationships between the parent and its entities and business units; and

ISA (NZ) 220 (Revised)

- Whether there have been changes in the entity or in the industry in which the entity operates since the previous audit engagement that may affect the nature of resources required, as well as the manner in which the work of the engagement team will be directed, supervised and reviewed.

A554. Information obtained during acceptance and continuance may also be relevant in complying with the requirements of other ISAs (NZ), as well as this ISA (NZ), for example with respect to:

- Establishing an understanding of the terms of the audit engagement, as required by ISA (NZ) 210;³⁵
- Identifying and assessing risks of material misstatement, whether due to error or fraud, in accordance with ISA (NZ) 315 (Revised 2019) and ISA (NZ) 240;³⁶
- Understanding the group and its environment, in the case of an audit of group financial statements in accordance with ISA (NZ) 600 (Revised), and directing, supervising and reviewing the work of component auditors;
- Determining whether, and how, to involve an auditor's expert in accordance with ISA (NZ) 620; and
- The entity's governance structure in accordance with ISA (NZ) 260 (Revised)³⁷ and ISA (NZ) 265.³⁸

A565. Law, regulation, or relevant ethical requirements may require the successor auditor to request, prior to accepting the audit engagement, the predecessor auditor to provide known information regarding any facts or circumstances that, in the predecessor auditor's judgment, the successor auditor needs to be aware of before deciding whether to accept the engagement. In some circumstances, the predecessor auditor may be required, on request by the proposed successor auditor, to provide information regarding identified or suspected non-compliance with laws and regulations to the proposed successor auditor. For example, if the predecessor auditor has withdrawn from the engagement as a result of identified or suspected non-compliance with laws and regulations, Professional and Ethical Standard 1³⁹ requires that the predecessor auditor, on request by a proposed successor auditor, provide all relevant facts and other information concerning such non-compliance that, in the predecessor auditor's opinion, the proposed successor auditor needs to be aware of before deciding whether to accept the audit appointment.

A576. In circumstances when the firm is obligated by law or regulation to accept or continue an audit engagement, the engagement partner may take into account information obtained by the firm about the nature and circumstances of the engagement.

³⁵ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 9

³⁶ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

³⁷ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

³⁸ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

³⁹ [PES 1, paragraph R360.22](#)

ISA (NZ) 220 (Revised)

A5~~87~~. In deciding on the necessary action, the engagement partner and the firm may conclude that it is appropriate to continue with the audit engagement and, if so, determine what additional steps are necessary at the engagement level (e.g., the assignment of more staff or staff with specific expertise). If the engagement partner has further concerns or is not satisfied that the matter has been appropriately dealt with, the firm's policies or procedures for resolving differences of opinion may be applicable.

Considerations Specific to Public Sector Entities (Ref: Para. 22–24)

A5~~98~~. In the public sector, auditors may be appointed in accordance with statutory procedures and the public sector auditor may not need to establish all policies or procedures regarding the acceptance and continuance of audit engagements. Nevertheless, the requirements and considerations for the acceptance and continuance of client relationships and engagements as set out in paragraphs 22–24 and A49–A57 may be valuable to public sector auditors in performing risk assessments and in carrying out reporting responsibilities.

Engagement Resources (Ref: Para. 25–28)

A60~~59~~. Under PES 3, the resources assigned or made available by the firm to support the performance of audit engagements include:

- Human resources;
- Technological resources; and
- Intellectual resources.

A61~~0~~. Resources for an audit engagement are primarily assigned or made available by the firm, although there may be circumstances when the engagement team directly obtains resources for the audit engagement. For example, this may be the case when a component auditor is required by statute, regulation or for another reason to express an audit opinion on the financial statements of a component, and the component auditor is also appointed by component management to perform audit procedures on behalf of the group auditor⁴⁰. In such circumstances, the firm's policies or procedures may require the engagement partner to take different actions, such as requesting information from the component auditor, to determine whether sufficient and appropriate resources are assigned or made available.

A62~~1~~. A relevant consideration for the engagement partner, in complying with the requirements in paragraphs 25 and 26, may be whether the resources assigned or made available to the engagement team enable fulfillment of relevant ethical requirements, including ethical principles such as professional competence and due care.

Human Resources

A63~~2~~. Human resources include members of the engagement team (see also paragraphs A5, A15–A21) and, where applicable, an auditor's external expert and individuals from within the entity's internal audit function who provide direct assistance on the audit.

⁴⁰ [ISA 600 \(Revised\), paragraph A10](#)

Technological Resources

- A643. The use of technological resources on the audit engagement may assist the auditor in obtaining sufficient appropriate audit evidence. Technological tools may allow the auditor to more effectively and efficiently manage the audit. Technological tools may also allow the auditor to evaluate large amounts of data more easily to, for example, provide deeper insights, identify unusual trends or more effectively challenge management's assertions, which enhances the ability of the auditor to exercise professional scepticism. Technological tools may also be used to conduct meetings and provide communication tools to the engagement team. Inappropriate use of such technological resources may, however, increase the risk of overreliance on the information produced for decision making purposes, or may create threats to complying with relevant ethical requirements, for example, requirements related to confidentiality.
- A654. The firm's policies or procedures may include required considerations or responsibilities for the engagement team when using firm approved technological tools to perform audit procedures and may require the involvement of individuals with specialised skills or expertise in evaluating or analysing the output.
- A665. When the engagement partner requires individuals from another firm to use specific automated tools and techniques when performing audit procedures, communications with those individuals may indicate that the use of such automated tools and techniques needs to comply with the engagement team's instructions.
- A676. The firm's policies or procedures may specifically prohibit the use of certain IT applications or features of IT applications (e.g., software that has not yet been specifically approved for use by the firm). Alternatively, the firm's policies or procedures may require the engagement team to take certain actions before using an IT application that is not firm-approved to determine it is appropriate for use, for example by requiring:
- The engagement team to have appropriate competence and capabilities to use the IT application.
 - Testing the operation and security of the IT application.
 - Specific documentation to be included in the audit file.
- A687. The engagement partner may exercise professional judgement in considering whether the use of an IT application on the audit engagement is appropriate in the context of the engagement, and if so, how the IT application is to be used. Factors that may be considered in determining whether a particular IT application, that has not been specifically approved for use by the firm, is appropriate for use in the audit engagement include whether:
- Use and security of the IT application complies with the firm's policies or procedures.
 - The IT application operates as intended.
 - Personnel have the competence and capabilities required to use the IT application.

ISA (NZ) 220 (Revised)

Intellectual Resources

A6~~98~~. Intellectual resources include, for example, audit methodologies, implementation tools, auditing guides, model programs, templates, checklists or forms.

A7~~06~~⁶⁹. The use of intellectual resources on the audit engagement may facilitate the consistent application and understanding of professional standards, law and regulation, and related firm policies or procedures. For this purpose, the engagement team may be required, in accordance with the firm's policies or procedures, to use the firm's audit methodology and specific tools and guidance. The engagement team may also consider whether the use of other intellectual resources is appropriate and relevant based on the nature and circumstances of the engagement, for example, an industry specific methodology or related guides and performance aids.

Sufficient and Appropriate Resources to Perform the Engagement (Ref: Para. 25)

A7~~10~~. In determining whether sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, ordinarily the engagement partner may depend on the firm's related policies or procedures (including resources) as described in paragraph A6. For example, based on information communicated by the firm, the engagement partner may be able to depend on the firm's technological development, implementation and maintenance programs when using firm-approved technology to perform audit procedures.

Competence and Capabilities of the Engagement Team (Ref: Para. 26)

A7~~21~~. When determining that the engagement team has the appropriate competence and capabilities, the engagement partner may take into consideration such matters as the team's:

- Understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation.
- Understanding of professional standards and applicable legal and regulatory requirements.
- Expertise in specialised areas of accounting or auditing.
- Expertise in IT used by the entity or automated tools or techniques that are to be used by the engagement team in planning and performing the audit engagement.
- Knowledge of relevant industries in which the entity being audited operates.
- Ability to exercise professional scepticism and professional judgement.
- Understanding of the firm's policies or procedures.

A7~~32~~. Internal auditors and an auditor's external expert are not members of the engagement team. ISA (NZ) 610 (Revised 2013)⁴¹ and ISA (NZ) 620⁴² include requirements and

⁴¹ ISA (NZ) 610 (Revised 2013), paragraph 15

⁴² ISA (NZ) 620, paragraph 9

ISA (NZ) 220 (Revised)

guidance relating to the assessment of the competence and capabilities of internal auditors and an auditor's external expert, respectively.

Project Management

A743. In situations where there are many engagement team members, for example in an audit of a larger or more complex entity, the engagement partner may involve an individual who has specialised skills or knowledge in project management, supported by appropriate technological and intellectual resources of the firm. Conversely, in an audit of a less complex entity with few engagement team members, project management may be achieved by a member of the engagement team through less formal means.

A754. Project management techniques and tools may support the engagement team in managing the quality of the audit engagement by, for example:

- Increasing the engagement team's ability to exercise professional scepticism through alleviating budget or time constraints that may otherwise impede the exercise of professional scepticism;
- Facilitating timely performance of audit work to effectively manage time constraints at the end of the audit process when more difficult or contentious matters may arise;
- Monitoring the progress of the audit against the audit plan,⁴³ including the achievement of key milestones, which may assist the engagement team in being proactive in identifying the need for making timely adjustments to the audit plan and the assigned resources; or
- Facilitating communication among members of the engagement team, for example, coordinating arrangements with component auditors and auditor's experts.

Insufficient or Inappropriate Resources (Ref: Para. 27)

A765. PES 3 addresses the firm's commitment to quality through its culture that exists throughout the firm, which recognises and reinforces the firm's role in serving the public interest by consistently performing quality engagements, and the importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities. PES 3 also addresses the firm's responsibilities for planning for resource needs, and obtaining, allocating or assigning resources in a manner that is consistent with the firm's commitment to quality. However, in certain circumstances, the firm's financial and operational priorities may place constraints on the resources assigned or made available to the engagement team. In such circumstances, these constraints do not override the engagement partner's responsibility for achieving quality at the engagement level, including for determining that the resources assigned or made available by the firm are sufficient and appropriate to perform the audit engagement.

A776. The engagement partner's determination of whether additional engagement level resources are required is a matter of professional judgement and is influenced by the requirements of this ISA (NZ) and the nature and circumstances of the audit engagement. As

⁴³ See ISA (NZ) 300, paragraph 9.

ISA (NZ) 220 (Revised)

described in paragraph A11, in certain circumstances, the engagement partner may determine that the firm's responses to quality risks are ineffective in the context of the specific engagement, including that certain resources assigned or made available to the engagement team are insufficient. In those circumstances, the engagement partner is required to take appropriate action, including communicating such information to the appropriate individuals in accordance with paragraph 27 and paragraph 39(c). For example, if an audit software program provided by the firm has not incorporated new or revised audit procedures in respect of recently issued industry regulation, timely communication of such information to the firm enables the firm to take steps to update and reissue the software promptly or to provide an alternative resource that enables the engagement team to comply with the new regulation in the performance of the audit engagement.

A787. If the resources assigned or made available are insufficient or inappropriate in the circumstances of the engagement and additional or alternative resources have not been made available, appropriate actions may include:

- Changing the planned approach to the nature, timing and extent of direction, supervision and review (see also paragraph A93).
- Discussing an extension to reporting deadlines with management or those charged with governance, when an extension is possible under applicable law or regulation.
- Following the firm's policies or procedures for resolving differences of opinion if the engagement partner does not obtain the necessary resources for the audit engagement.
- Following the firm's policies or procedures for withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

Considerations Specific to Public Sector Entities (Ref: Para. 25–28)

A798. In the public sector, specialised skills may be necessary to discharge the terms of the audit mandate in a particular jurisdiction. Such skills may include an understanding of the applicable reporting arrangements, including reporting to the legislature or other governing body or reporting in the public interest. The wider scope of a public sector audit may include, for example, some aspects of performance auditing.

Engagement Performance

Scalability (Ref: Para. 29)

A8079. When an audit is not carried out entirely by the engagement partner, or in an audit of an entity whose nature and circumstances are more complex, it may be necessary for the engagement partner to assign direction, supervision, and review to other members of the engagement team. However, as part of the engagement partner's overall responsibility for managing and achieving quality on the audit engagement and to be sufficiently and appropriately involved, the engagement partner is required to determine that the nature, timing and extent of direction, supervision and review is undertaken in accordance with paragraph 30. In such circumstances, personnel or members of the engagement team, including component auditors, may provide information to the engagement partner to enable the engagement partner to make the determination required by paragraph 30.

ISA (NZ) 220 (Revised)

Direction, Supervision and Review (Ref: Para. 30)

A810. Under PES 3, the firm is required to establish a quality objective that addresses the nature, timing and extent of the direction and supervision of engagement teams and review of their work. PES 3 also requires that such direction, supervision and review is planned and performed on the basis that the work performed by less experienced members of the engagement team is directed, supervised and reviewed by more experienced engagement team members.

A821. Direction and supervision of the engagement team and the review of the work of the engagement team are firm-level responses that are implemented at the engagement level, of which the nature, timing and extent may be further tailored by the engagement partner in managing the quality of the audit engagement. Accordingly, the approach to direction, supervision and review will vary from one engagement to the next, taking into account the nature and circumstances of the engagement. The approach will generally include a combination of addressing the firm's policies or procedures and engagement specific responses.

A832. The approach to the direction and supervision of the members of the engagement team and the review of their work provides support for the engagement partner in fulfilling the requirements of this ISA (NZ), and in concluding that the engagement partner has been sufficiently and appropriately involved throughout the audit engagement in accordance with paragraph 40.

A843. Ongoing discussion and communication among members of the engagement team allows less experienced engagement team members to raise questions with more experienced engagement team members (including the engagement partner) in a timely manner and enables effective direction, supervision and review in accordance with paragraph 30.

Direction

A854. Direction of the engagement team may involve informing the members of the engagement team of their responsibilities, such as:

- Contributing to the management and achievement of quality at the engagement level through their personal conduct, communication and actions.
- Maintaining a questioning mind and being aware of unconscious or conscious auditor biases in exercising professional scepticism when gathering and evaluating audit evidence (see paragraph A35).
- Fulfilling relevant ethical requirements.
- The responsibilities of respective partners when more than one partner is involved in the conduct of an audit engagement.
- The responsibilities of respective engagement team members to perform audit procedures and of more experienced engagement team members to direct, supervise and review the work of less experienced engagement team members.

ISA (NZ) 220 (Revised)

- Understanding the objectives of the work to be performed and the detailed instructions regarding the nature, timing and extent of planned audit procedures as set forth in the overall audit strategy and audit plan.
- Addressing threats to the achievement of quality, and the engagement team's expected response. For example, budget constraints or resource constraints should not result in the engagement team members modifying planned audit procedures or failing to perform planned audit procedures.

Supervision

A8865. Supervision may include matters such as:

- Tracking the progress of the audit engagement, which includes monitoring:
 - The progress against the audit plan;
 - Whether the objective of work performed has been achieved; and
 - The ongoing adequacy of assigned resources.
- Taking appropriate action to address issues arising during the engagement, including for example, reassigning planned audit procedures to more experienced engagement team members when issues are more complex than initially anticipated.
- Identifying matters for consultation or consideration by more experienced engagement team members during the audit engagement.
- Providing coaching and on-the-job training to help engagement team members develop skills or competencies.
- Creating an environment where engagement team members raise concerns without fear of reprisals.

Review

A876. Review of the engagement team's work provides support for the conclusion that the requirements of this ISA (NZ) have been addressed.

A887. Review of the engagement team's work consists of consideration of whether, for example:

- The work has been performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements;
- Significant matters have been raised for further consideration;
- Appropriate consultations have taken place and the resulting conclusions have been documented and implemented;
- There is a need to revise the nature, timing and extent of work performed;
- The work performed supports the conclusions reached and is appropriately documented;
- The evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion; and

ISA (NZ) 220 (Revised)

- The objectives of the audit procedures have been achieved.
- A898. The firm's policies or procedures may contain specific requirements regarding:
- The nature, timing and extent of review of audit documentation;
 - Different types of review that may be appropriate in different situations (e.g., review of each individual working paper or selected working papers); and
 - Which members of the engagement team are required to perform the different types of review.

The Engagement Partner's Review (Ref: Para. 30–34)

A9089. As required by ISA (NZ) 230, the engagement partner documents the date and extent of the review.⁴⁴

A910. Timely review of documentation by the engagement partner at appropriate stages throughout the audit engagement enables significant matters to be resolved to the engagement partner's satisfaction on or before the date of the auditor's report. The engagement partner need not review all audit documentation.

A912. The engagement partner exercises professional judgement in identifying the areas of significant judgement made by the engagement team. The firm's policies or procedures may specify certain matters that are commonly expected to be significant judgements. Significant judgements in relation to the audit engagement may include matters related to the overall audit strategy and audit plan for undertaking the engagement, the execution of the engagement and the overall conclusions reached by the engagement team, for example:

- Matters related to planning the engagement, such as matters related to determining materiality.
- The composition of the engagement team, including:
 - Personnel using expertise in a specialised area of accounting or auditing;
 - The use of personnel from service delivery centres.
- The decision to involve an auditor's expert, including the decision to involve an external expert.
- The engagement team's consideration of information obtained in the acceptance and continuance process and proposed responses to that information.
- The engagement team's risk assessment process, including situations where consideration of inherent risk factors and the assessment of inherent risk requires significant judgement by the engagement team.
- The engagement team's consideration of related party relationships and transactions and disclosures.

⁴⁴ ISA (NZ) 230, paragraph 9(c)

ISA (NZ) 220 (Revised)

- Results of the procedures performed by the engagement team on significant areas of the engagement, for example, conclusions in respect of certain accounting estimates, accounting policies or going concern considerations.
- The engagement team's evaluation of the work performed by experts and conclusions drawn therefrom.
- In group audit situations:
 - The proposed overall group audit strategy and group audit plan;
 - Decisions about the involvement of component auditors, including how to direct and supervise them and review their work; and
 - The evaluation of work performed by component auditors and the conclusions drawn therefrom.
- How matters affecting the overall audit strategy and audit plan have been addressed.
- The significance and disposition of corrected and uncorrected misstatements identified during the engagement.
- The proposed audit opinion and matters to be communicated in the auditor's report, for example, key audit matters, or matters related to going concern. a “Material Uncertainty Related to Going Concern” paragraph.

A9~~32~~. The engagement partner exercises professional judgement in determining other matters to review, for example based on:

- The nature and circumstances of the audit engagement.
- Which engagement team member performed the work.
- Matters relating to recent inspection findings.
- The requirements of the firm's policies or procedures.

Nature, Timing and Extent

A9~~43~~. The nature, timing and extent of the direction, supervision and review are required to be planned and performed in accordance with the firm's policies or procedures, as well as professional standards and applicable legal and regulatory requirements. For example, the firm's policies or procedures may include that:

- Work planned to be performed at an interim date is to be directed, supervised and reviewed at the same time as the performance of the procedures rather than at the end of the period, so that any necessary corrective action can be taken in a timely manner.
- Certain matters are to be reviewed by the engagement partner and the firm may specify the circumstances or engagements in which such matters are expected to be reviewed.

ISA (NZ) 220 (Revised)

Scalability

A9~~54~~. The approach to direction, supervision and review may be tailored depending on, for example:

- The engagement team member's previous experience with the entity and the area to be audited. For example, if the work related to the entity's information system is being performed by the same engagement team member who performed the work in the prior period and there are no significant changes to the information system, the extent and frequency of the direction and supervision of the engagement team member may be less and the review of the related working papers may be less detailed.
- The complexity of the audit engagement. For example, if significant events have occurred that make the audit engagement more complex, the extent and frequency of the direction and supervision of the engagement team member may be greater and the review of the related working papers may be more detailed.
- The assessed risks of material misstatement. For example, a higher assessed risk of material misstatement may require a corresponding increase in the extent and frequency of the direction and supervision of engagement team members and a more detailed review of their work.
- The competence and capabilities of the individual engagement team members performing the audit work. For example, less experienced engagement team members may require more detailed instructions and more frequent, or in-person, interactions as the work is performed.
- The manner in which the reviews of the work performed are expected to take place. For example, in some circumstances, remote reviews may not be effective in providing the necessary direction and may need to be supplemented by in-person interactions.
- The structure of the engagement team and the location of engagement team members. For example, direction and supervision of individuals located at service delivery centres and the review of their work may:
 - Be more formalised and structured than when members of the engagement team are all situated in the same location; or
 - Use IT to facilitate the communication between the members of the engagement team.

A9~~65~~. Identification of changes in the engagement circumstances may warrant re-evaluation of the planned approach to the nature, timing or extent of direction, supervision or review. For example, if the assessed risk of material misstatement at the financial statement level increases because of a complex transaction, the engagement partner may need to change the planned level of review of the work related to the transaction.

A9~~76~~. In accordance with paragraph 30(b), the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. For example, if a more experienced engagement team member becomes unavailable to participate in the supervision and review of the

ISA (NZ) 220 (Revised)

engagement team, the engagement partner may need to increase the extent of supervision and review of the less experienced engagement team members.

Review of Communications to Management, Those Charged with Governance, or Regulatory Authorities (Ref: Para. 34)

A987. The engagement partner uses professional judgement in determining which written communications to review, taking into account the nature and circumstances of the audit engagement. For example, it may not be necessary for the engagement partner to review communications between the engagement team and management in the ordinary course of the audit.

Consultation (Ref: Para. 35)

A998. PES 3 requires the firm to establish a quality objective that addresses consultation on difficult or contentious matters and how the conclusions agreed are implemented. Consultation may be appropriate or required, for example for:

- Issues that are complex or unfamiliar (e.g., issues related to an accounting estimate with a high degree of estimation uncertainty);
- Significant risks;
- Significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual;
- Limitations imposed by management; and
- Non-compliance with laws or regulations.

A10099. Effective consultation on significant technical, ethical and other matters within the firm or, where applicable, outside the firm may be achieved when those consulted:

- Are given all the relevant facts that will enable them to provide informed advice; and
- Have appropriate knowledge, seniority and experience.

A1010. It may be appropriate for the engagement team, in the context of the firm's policies or procedures, to consult outside the firm, for example, where the firm lacks appropriate internal resources. The engagement team may take advantage of advisory services provided by firms, professional and regulatory bodies or commercial organisations that provide relevant quality control services.

A1024. The need for consultation outside the engagement team on a difficult or contentious matter may be an indicator that the matter is a key audit matter.⁴⁵

Engagement Quality Review (Ref: Para. 36)

A1032. PES 3 contains requirements that the firm establish policies or procedures addressing engagement quality reviews in accordance with PES 4, and requiring an engagement quality

⁴⁵ ISA (NZ) 701, paragraphs 9 and A154

ISA (NZ) 220 (Revised)

review for certain types of engagements.⁴⁶ PES 4 deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review.

Completion of the Engagement Quality Review Before Dating of the Auditor's Report (Ref: Para. 36(d))

A10~~43~~⁴³. ISA (NZ) 700 (Revised) requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.⁴⁷ If applicable to the audit engagement, PES 4 and this ISA (NZ) require that the engagement partner be precluded from dating the engagement report until notification has been received from the engagement quality reviewer that the engagement quality review is complete. For example, if the engagement quality reviewer has communicated to the engagement partner concerns about the significant judgements made by the engagement team or that the conclusions reached thereon were not appropriate then the engagement quality review is not complete.⁴⁸

A10~~54~~⁵⁴. An engagement quality review that is conducted in a timely manner at appropriate stages during the audit engagement may assist the engagement team in promptly resolving matters raised to the engagement quality reviewer's satisfaction on or before the date of the auditor's report.

A10~~65~~⁶⁵. Frequent communications between the engagement team and the engagement quality reviewer throughout the audit engagement may assist in facilitating an effective and timely engagement quality review. In addition to discussing significant matters with the engagement quality reviewer, the engagement partner may assign responsibility for coordinating requests from the engagement quality reviewer to another member of the engagement team.

Differences of Opinion (Ref: Para. 37–38)

A10~~76~~⁷⁶. PES 3 requires the firm to establish a quality objective that addresses differences of opinion that arise within the engagement team, or between the engagement team and the engagement quality reviewer or individuals performing activities within the firm's system of quality management. PES 3 also requires that differences of opinion are brought to the attention of the firm and resolved.

A10~~87~~⁸⁷. In some circumstances, the engagement partner may not be satisfied with the resolution of the difference of opinion. In such circumstances, appropriate actions for the engagement partner may include, for example:

- Seeking legal advice; or
- Withdrawing from the audit engagement, when withdrawal is possible under applicable law or regulation.

⁴⁶ PES 3, paragraph 34(f)

⁴⁷ ISA (NZ) 700 (Revised), paragraph 49

⁴⁸ PES 4, paragraph 26

ISA (NZ) 220 (Revised)**Monitoring and Remediation (Ref: Para. 39)**

A10~~98~~. PES 3 sets out requirements for the firm's monitoring and remediation process. PES 3 requires the firm to communicate to engagement teams information about the firm's monitoring and remediation process to enable them to take prompt and appropriate action in accordance with their responsibilities.⁴⁹ Further, information provided by members of the engagement team may be used by the firm in the firm's monitoring and remediation process, and exercising professional judgement and professional scepticism while conducting the audit may assist the members of the engagement team in remaining alert for information that may be relevant to that process.

A11~~009~~. Information provided by the firm may be relevant to the audit engagement when, for example, it relates to findings on another engagement performed by the engagement partner or other members of the engagement team, findings from the local firm office or inspection results of previous audits of the entity.

A11~~10~~. In considering information communicated by the firm through its monitoring and remediation process and how it may affect the audit engagement, the engagement partner may consider the remedial actions designed and implemented by the firm to address identified deficiencies and, to the extent relevant to the nature and circumstances of the engagement, communicate accordingly to the engagement team. The engagement partner may also determine whether additional remedial actions are needed at the engagement level. For example, the engagement partner may determine that:

- An auditor's expert is needed; or
- The nature, timing and extent of direction, supervision and review needs to be enhanced in an area of the audit where deficiencies have been identified.

If an identified deficiency does not affect the quality of the audit (e.g., if it relates to a technological resource that the engagement team did not use) then no further action may be needed.

A11~~21~~. An identified deficiency in the firm's system of quality management does not necessarily indicate that an audit engagement was not performed in accordance with professional standards and applicable legal and regulatory requirements, or that the auditor's report was not appropriate in the circumstances.

Taking Overall Responsibility for Managing and Achieving Quality (Ref: Para. 40)

A11~~32~~. PES 3 requires the firm to establish a quality objective addressing the engagement team's understanding and fulfilment of their responsibilities in connection with the engagement. PES 3 further requires that the quality objective include the overall responsibility of engagement partners for managing and achieving quality on the engagement and being sufficiently and appropriately involved throughout the engagement.

A11~~43~~. Relevant considerations in addressing paragraph 40 include determining how the engagement partner has complied with the requirements of this ISA (NZ), given the nature and circumstances of the audit engagement and how the audit documentation evidences the

⁴⁹ PES 3, paragraph 47

ISA (NZ) 220 (Revised)

engagement partner's involvement throughout the audit engagement, as described in paragraph A118.

A1154. Indicators that the engagement partner may not have been sufficiently and appropriately involved include, for example:

- Lack of timely review by the engagement partner of the audit engagement planning, including reviewing the assessment of risks of material misstatement and the design of those responses to those risks.
- Evidence that those to whom tasks, actions or procedures have been assigned were not adequately informed about the nature of their responsibilities and authority, the scope of the work being assigned and the objectives thereof; and were not provided other necessary instructions and relevant information.
- A lack of evidence of the engagement partner's direction and supervision of the other members of the engagement team and the review of their work.

A1165. If the engagement partner's involvement does not provide the basis for determining that the significant judgements made and the conclusions reached are appropriate, the engagement partner will not be able to reach the determination required by paragraph 40. In addition to taking account of firm policies or procedures that may set forth the required actions to be taken in such circumstances, appropriate actions that the engagement partner may take, include, for example:

- Updating and changing the audit plan;
- Re-evaluating the planned approach to the nature and extent of review and modifying the planned approach to increase the involvement of the engagement partner; or
- Consulting with personnel assigned operational responsibility for the relevant aspect of the firm's system of quality management.

Documentation (Ref: Para. 41)

A1176. In accordance with ISA (NZ) 230,⁵⁰ audit documentation provides evidence that the audit complies with the ISAs (NZ). However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

A1187. Documentation of the performance of the requirements of this ISA (NZ), including evidencing the involvement of the engagement partner and the engagement partner's determination in accordance with paragraph 40, may be accomplished in different ways depending on the nature and circumstances of the audit engagement. For example:

- Direction of the engagement team can be documented through signoffs of the audit plan and project management activities;

⁵⁰ ISA (NZ) 230, paragraph A7

ISA (NZ) 220 (Revised)

- Minutes from formal meetings of the engagement team may provide evidence of the clarity, consistency and effectiveness of the engagement partner's communications and other actions in respect of culture and expected behaviours that demonstrate the firm's commitment to quality;
- Agendas from discussions between the engagement partner and other members of the engagement team, and where applicable the engagement quality reviewer, and related signoffs and records of the time the engagement partner spent on the engagement, may provide evidence of the engagement partner's involvement throughout the audit engagement and supervision of other members of the engagement team; or
- Signoffs by the engagement partner and other members of the engagement team provide evidence that the working papers were reviewed.

A11~~98~~. When dealing with circumstances that may pose risks to achieving quality on the audit engagement, the exercise of professional scepticism, and the documentation of the auditor's consideration thereof, may be important. For example, if the engagement partner obtains information that may have caused the firm to decline the engagement (see paragraph 24), the documentation may include explanations of how the engagement team dealt with the circumstance.

A1~~2019~~. Documentation of consultations with other professionals that involve difficult or contentious matters that is sufficiently complete and detailed contributes to an understanding of:

- The nature and scope of the issue on which consultation was sought; and
- The results of the consultation, including any decisions taken, the basis for those decisions and how they were implemented.

ISA (NZ) 220 (Revised)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

~~This conformity statement accompanies but is not part of ISA (NZ) 220 (Revised).~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 220 (Revised) *Quality Management for an Audit of a Financial Statements*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

The following definitions are additional to or have been amended from IAS 220(Revised):

Paragraph	Summary of Change
NZ 12.1	Additional to ISA 220 (Revised), to include definitions of ‘Professional standards’
NZ 12.2	The definition of “Partner” is amended from ISA 220 (Revised) due to narrower mandate of XRB. This definition also includes additional to ISA 220 (Revised) to include public sector specific definitions within ISA (NZ) 220 (Revised) that applies to New Zealand public sector audits.

This ISA (NZ) incorporates terminology and definitions used in New Zealand. References to publicly traded entities have been broadened to refer to FMC reporting entities considered to have a higher level of public accountability in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 220 (Revised).

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*.

ASA 220 conforms to ISA 220.

The equivalent requirements and related application and other explanatory material included in ISA 220 in respect of “relevant ethical requirements”, have been included in another Auditing Standard,

ISA (NZ) 220 (Revised)

ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements. There is no international equivalent to ASA 102.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 220 (Revised)</u> <u>Quality Management for an Audit of Financial Statements</u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 230

Audit Documentation ~~(ISA (NZ) 230)~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including June 2022.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 230 issued by the External Reporting Board in July 2011.~~

COPYRIGHT

© External Reporting Board (“XRB”) 2011

~~This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.~~

~~Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz~~

~~All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org~~

ISBN 978-1-927174-03-6

Explanatory note

This note is not part of the standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 230 *Audit Documentation* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 230 issued by the External Reporting Board in July 2011 (as amended to June 2022).

The revision of ISA (NZ) 230 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 230

AUDIT DOCUMENTATION

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Commencement and Application	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1
Nature and Purposes of Audit Documentation	2-3
Effective Date	4
Objective	5
Definitions	6
Requirements	
Timely Preparation of Audit Documentation	7
Documentation of the Audit Procedures Performed and Audit Evidence Obtained	8-13
Assembly of the Final Audit File	14-16
Application and Other Explanatory Material	
Timely Preparation of Audit Documentation	A1
Documentation of the Audit Procedures Performed and Audit Evidence Obtained	A2-A20
Assembly of the Final Audit File	A21-A24
Appendix: Specific Audit Documentation Requirements in Other ISAs (NZ)	
Accompanying Attachment: Conformity to the International Standards on Auditing	

International Standard on Auditing (New Zealand) (ISA (NZ)) 230, “**Audit Documentation**” should be read in conjunction with ISA (NZ) 200, “**Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)**.”

History of Amendments

Table of pronouncements – ISA (NZ) 230 *Audit Documentation*

This table lists the pronouncements establishing and amending ISA (NZ) 230.

Pronouncements	Date approved	<u>Application</u>Effective-date
International Standard on Auditing (New Zealand) 230	~~October 2025~~ July 2011	~~Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September 2011.~~
~~Professional and Ethical Standard 3 (Amended) <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i>~~	~~Jan 2013~~	~~Effective on 1 January 2014.~~
~~ISA (NZ) 610 (Revised 2013) <i>Using the Work of Internal Auditors</i>~~	~~April 2013~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2013.~~
~~Use of management and those charged with governance~~	~~December 2013~~	~~Effective for audits of financial statements for periods beginning on or after 1 July 2014.~~
~~Conforming amendments to ISAs (NZ) and other pronouncements (Auditor reporting)~~	~~September 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates)~~	~~October 2018~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2019.~~
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021.~~
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~	~~July 2021~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~

ISA (NZ) 230

Pronouncements	Date approved	<u>Application</u> ~~Effective~~ date
Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)	June 2022	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~

Table of Amended Paragraphs in ISA (NZ) 230		
Paragraph affected	How affected	By...[date]
3, A21, A23	Amended	Professional and Ethical Standard 3 (Amended) [Jan 2013]
A7, A8, A19, Appendix	Amended	ISA (NZ) 610 (Revised 2013) [April 2013]
Various	Amended	Use of management and those charged with governance [Dec 2013]
A10, Appendix	Amended	Conforming amendments to ISAs (NZ) and other pronouncements (Auditor reporting) [Sept 2015]
NZA7.1, A10, Appendix	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates) [Oct 2018]
NZA7.1, A8, A17, Appendix Footnotes 4 and 5	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [Feb 2020]
3, NZA7.1, A13, A20, A21, A23, A24, Appendix	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]
Appendix	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.
mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to prepare audit documentation for an audit of financial statements. The Appendix lists other ISAs (NZ) that contain specific documentation requirements and guidance. The specific documentation requirements of other ISAs (NZ) do not limit the application of this ISA (NZ). Law or regulation may establish additional documentation requirements.

Nature and Purposes of Audit Documentation

2. Audit documentation that meets the requirements of this ISA (NZ) and the specific documentation requirements of other relevant ISAs (NZ) and ASs provides:
 - (a) Evidence of the auditor's basis for a conclusion about the achievement of the overall objectives of the auditor and;²
 - (b) Evidence that the audit was planned and performed in accordance with ISAs (NZ) and applicable legal and regulatory requirements.
3. Audit documentation serves a number of additional purposes, including the following:
 - Assisting the engagement team to plan and perform the audit.
 - Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with ISA (NZ) 220 (Revised).³
 - Enabling the engagement team to be accountable for its work.
 - Retaining a record of matters of continuing significance to future audits.
 - Enabling the conduct of engagement quality reviews,⁴ other types of engagement reviews⁵ and monitoring activities under the firm's system of quality management.
 - Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

Effective Date

4. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ 4.1 This Standard repeals ISA (NZ) 230 Audit Documentation issued in July 2011.

² ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 11

³ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraphs 29-34

⁴ Professional and Ethical Standard 4, *Engagement Quality Reviews*

⁵ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph A135

Objective

5. The objective of the auditor is to prepare documentation that provides:
 - (a) A sufficient and appropriate record of the basis for the auditor's report; and
 - (b) Evidence that the audit was planned and performed in accordance with ISAs (NZ) and applicable legal and regulatory requirements.

Definitions

6. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Audit documentation – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).
 - (b) Audit file – One or more folders or other storage media, in physical or electronic form, containing the records that comprise the audit documentation for a specific engagement.
 - (c) Experienced auditor – An individual (whether internal or external to the firm) who has practical audit experience, and a reasonable understanding of:
 - (i) Audit processes;
 - (ii) ISAs (NZ) and applicable legal and regulatory requirements;
 - (iii) The business environment in which the entity operates; and
 - (iv) Auditing and financial reporting issues relevant to the entity's industry.

Requirements

Timely Preparation of Audit Documentation

7. The auditor shall prepare audit documentation on a timely basis. (Ref: Para. A1)

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

8. The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (Ref: Para. A2-A5, A16-A17)
 - (a) The nature, timing, and extent of the audit procedures performed to comply with ISAs (NZ) and applicable legal and regulatory requirements; (Ref: Para. A6-A7)
 - (b) The results of the audit procedures performed, and the audit evidence obtained; and
 - (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions. (Ref: Para. A8-A11)

ISA (NZ) 230

9. In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:
 - (a) The identifying characteristics of the specific items or matters tested; (Ref: Para. A12)
 - (b) Who performed the audit work and the date such work was completed; and
 - (c) Who reviewed the audit work performed and the date and extent of such review. (Ref: Para. A13)
10. The auditor shall document discussions of significant matters with management, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place. (Ref: Para. A14)
11. If the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter, the auditor shall document how the auditor addressed the inconsistency. (Ref: Para. A15)

Departure from a Relevant Requirement

12. If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement in an ISA (NZ), the auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure. (Ref: Para. A18-A19)

Matters Arising after the Date of the Auditor's Report

13. If, in exceptional circumstances, the auditor performs new or additional audit procedures or draws new conclusions after the date of the auditor's report, the auditor shall document: (Ref: Para. A20)
 - (a) The circumstances encountered;
 - (b) The new or additional audit procedures performed, audit evidence obtained, and conclusions reached, and their effect on the auditor's report; and
 - (c) When and by whom the resulting changes to audit documentation were made and reviewed.

Assembly of the Final Audit File

14. The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor's report. (Ref: Para. A21-A22)
15. After the assembly of the final audit file has been completed, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period. (Ref: Para. A23)
16. In circumstances other than those envisaged in paragraph 13 where the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document: (Ref: Para. A24)
 - (a) The specific reasons for making them; and

ISA (NZ) 230

- (b) When and by whom they were made and reviewed.

Application and Other Explanatory Material

Timely Preparation of Audit Documentation (Ref: Para. 7)

- A1. Preparing sufficient and appropriate audit documentation on a timely basis helps to enhance the quality of the audit and facilitates the effective review and evaluation of the audit evidence obtained and conclusions reached before the auditor's report is finalised. Documentation prepared after the audit work has been performed is likely to be less accurate than documentation prepared at the time such work is performed.

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation (Ref: Para. 8)

- A2. The form, content and extent of audit documentation depend on factors such as:
- The size and complexity of the entity.
 - The nature of the audit procedures to be performed.
 - The identified risks of material misstatement.
 - The significance of the audit evidence obtained.
 - The nature and extent of exceptions identified.
 - The need to document a conclusion or the basis for a conclusion not readily determinable from the documentation of the work performed or audit evidence obtained.
 - The audit methodology and tools used.
- A3. Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include:
- Audit programmes.
 - Analyses.
 - Issues memoranda.
 - Summaries of significant matters.
 - Letters of confirmation and representation.
 - Checklists.
 - Correspondence (including e-mail) concerning significant matters.

The auditor may include abstracts or copies of the entity's records (for example, significant and specific contracts and agreements) as part of audit documentation. Audit documentation, however, is not a substitute for the entity's accounting records.

- A4. The auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

ISA (NZ) 230

- A5. Oral explanations by the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.

Documentation of Compliance with ISAs (NZ) (Ref: Para. 8(a))

- A6. In principle, compliance with the requirements of this ISA (NZ) will result in the audit documentation being sufficient and appropriate in the circumstances. Other ISAs (NZ) contain specific documentation requirements that are intended to clarify the application of this ISA (NZ) in the particular circumstances of those other ISAs (NZ). The specific documentation requirements of other ISAs (NZ) do not limit the application of this ISA (NZ). Furthermore, the absence of a documentation requirement in any particular ISA (NZ) is not intended to suggest that there is no documentation that will be prepared as a result of complying with that ISA (NZ).

- A7. [Amended by the NZAuASB.]

NZA7.1 Audit documentation provides evidence that the audit complies with the ISAs (NZ). However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with those charged with governance.
- An auditor's report containing an appropriately qualified opinion on the financial statements demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in ISAs (NZ).
- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:
 - For example, there may be no single way in which the auditor's professional scepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor's exercise of professional scepticism in accordance with the ISAs (NZ). For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, documenting how the auditor evaluated that evidence, including the professional judgements made in forming a conclusion as to the sufficiency and appropriateness of the audit evidence obtained.
 - Similarly, that the engagement partner has taken responsibility for the direction and supervision of the engagement team and the review of their

ISA (NZ) 230

work⁶ may be evidenced in a number of ways within the audit documentation. This may include documentation that evidences the engagement partner's sufficient and appropriate involvement in the audit, such as participation in engagement team discussions.

Documentation of Significant Matters and Related Significant Professional Judgements (Ref: Para. 8(c))

- A8. Judging the significance of a matter requires an objective analysis of the facts and circumstances. Examples of significant matters include:
- Matters that give rise to significant risks (as defined in ISA (NZ) 315 (Revised 2019)⁷.
 - Results of audit procedures indicating (a) that the financial statements could be materially misstated, or (b) a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
 - Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
 - Findings that could result in a modification to the audit opinion or the inclusion of an explanatory paragraph in the auditor's report.
- A9. An important factor in determining the form, content and extent of audit documentation of significant matters is the extent of professional judgement exercised in performing the work and evaluating the results. Documentation of the professional judgements made, where significant, serves to explain the auditor's conclusions and to reinforce the quality of the judgement. Such matters are of particular interest to those responsible for reviewing audit documentation, including those carrying out subsequent audits when reviewing matters of continuing significance (for example, when performing a retrospective review of accounting estimates).
- A10. Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgement include, where the matters and judgements are significant:
- The rationale for the auditor's conclusion when a requirement provides that the auditor 'shall consider' certain information or factors, and that consideration is significant in the context of the particular engagement.
 - The basis for the auditor's conclusion on the reasonableness of areas of subjective judgements made by management for example management's judgements in relation to the going concern basis of accounting⁸.
 - The basis for the auditor's evaluation of whether an accounting estimate and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

⁶ ISA (NZ) 220 (Revised), paragraph 29

⁷ ISA (NZ) 315 (Revised 2019), paragraph 12(l)

⁸ [ISA \(NZ\) 570, Going Concern](#)

ISA (NZ) 230

- The basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
- When ISA (NZ) 701⁹ applies, the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated.

A11. The auditor may consider it helpful to prepare and retain as part of the audit documentation a summary (sometimes known as a completion memorandum) that describes the significant matters identified during the audit and how they were addressed, or that includes cross-references to other relevant supporting audit documentation that provides such information. Such a summary may facilitate effective and efficient reviews and inspections of the audit documentation, particularly for large and complex audits. Further, the preparation of such a summary may assist the auditor's consideration of the significant matters. It may also help the auditor to consider whether, in light of the audit procedures performed and conclusions reached, there is any individual relevant ISA (NZ) objective that the auditor cannot achieve that would prevent the auditor from achieving the overall objectives of the auditor.

Identification of Specific Items or Matters Tested, and of the Preparer and Reviewer (Ref: Para. 9)

- A12. Recording the identifying characteristics serves a number of purposes. For example, it enables the engagement team to be accountable for its work and facilitates the investigation of exceptions or inconsistencies. Identifying characteristics will vary with the nature of the audit procedure and the item or matter tested. For example:
- For a detailed test of entity-generated purchase orders, the auditor may identify the documents selected for testing by their dates and unique purchase order numbers.
 - For a procedure requiring selection or review of all items over a specific amount from a given population, the auditor may record the scope of the procedure and identify the population (for example, all journal entries over a specified amount from the journal register).
 - For a procedure requiring systematic sampling from a population of documents, the auditor may identify the documents selected by recording their source, the starting point and the sampling interval (for example, a systematic sample of shipping reports selected from the shipping log for the period from April 1 to September 30, starting with report number 12345 and selecting every 125th report).
 - For a procedure requiring enquiries of specific entity personnel, the auditor may record the dates of the enquiries and the names and job designations of the entity personnel.

⁹ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA (NZ) 230

- For an observation procedure, the auditor may record the process or matter being observed, the relevant individuals, their respective responsibilities, and where and when the observation was carried out.

A13. ISA (NZ) 220 (Revised) contains requirements and guidance on the review of audit documentation.¹⁰ The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.

Documentation of Discussions of Significant Matters with Management, Those Charged with Governance, and Others (Ref: Para. 10)

A14. The documentation is not limited to records prepared by the auditor but may include other appropriate records such as minutes of meetings prepared by the entity's personnel and agreed by the auditor. Others with whom the auditor may discuss significant matters may include other personnel within the entity, and external parties, such as persons providing professional advice to the entity.

Documentation of How Inconsistencies Have Been Addressed (Ref: Para. 11)

A15. The requirement to document how the auditor addressed inconsistencies in information does not imply that the auditor needs to retain documentation that is incorrect or superseded.

Considerations Specific to Smaller Entities (Ref: Para. 8)

A16. The audit documentation for the audit of a smaller entity is generally less extensive than that for the audit of a larger entity. Further, in the case of an audit where the engagement partner performs all the audit work, the documentation will not include matters that might have to be documented solely to inform or instruct members of an engagement team, or to provide evidence of review by other members of the team (for example, there will be no matters to document relating to team discussions or supervision). Nevertheless, the engagement partner complies with the overriding requirement in paragraph 8 to prepare audit documentation that can be understood by an experienced auditor, as the audit documentation may be subject to review by external parties for regulatory or other purposes.

A17. When preparing audit documentation, the auditor of a smaller entity may also find it helpful and efficient to record various aspects of the audit together in a single document, with cross-references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity its environment, the applicable financial reporting framework, and the entity's system of internal control, the overall audit strategy and audit plan, materiality determined in accordance with ISA (NZ) 320,¹¹ assessed risks, significant matters noted during the audit, and conclusions reached.

Departure from a Relevant Requirement (Ref: Para. 12)

¹⁰ ISA (NZ) 220 (Revised), paragraph 29-34

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

ISA (NZ) 230

- A18. The requirements of the ISAs (NZ) are designed to enable the auditor to achieve the objectives specified in the ISAs (NZ), and thereby the overall objectives of the auditor. Accordingly, other than in exceptional circumstances, the ISAs (NZ) call for compliance with each requirement that is relevant in the circumstances of the audit.
- A19. The documentation requirement applies only to requirements and mandatory provisions that are relevant in the circumstances. A requirement is not relevant¹² only in the cases where:
- (a) The entire ISA (NZ) is not relevant (for example, if an entity does not have an internal audit function, nothing in ISA (NZ) 610 (Revised 2013)¹³ is relevant); or
 - (b) The requirement is conditional and the condition does not exist (for example, the requirement to modify the auditor's opinion where there is an inability to obtain sufficient appropriate audit evidence, and there is no such inability).

Matters Arising after the Date of the Auditor's Report (Ref: Para. 13)

- A20. Examples of exceptional circumstances include facts which become known to the auditor after the date of the auditor's report but which existed at that date and which, if known at that date, might have caused the financial statements to be amended or the auditor to modify the opinion in the auditor's report.¹⁴ The resulting changes to the audit documentation are reviewed in accordance with the review responsibilities set out in ISA (NZ) 220 (Revised).¹⁵

Assembly of the Final Audit File (Ref: Para. 14-16)

- A21. Professional and Ethical Standard 3 requires firms' systems of quality management to establish a quality objective that addresses the assembly of engagement documentation on a timely basis after the date of the engagement reports.¹⁶ An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.¹⁷
- A22. The completion of the assembly of the final audit file after the date of the auditor's report is an administrative process that does not involve the performance of new audit procedures or the drawing of new conclusions. Changes may, however, be made to the audit documentation during the final assembly process if they are administrative in nature. Examples of such changes include:
- Deleting or discarding superseded documentation.
 - Sorting, collating and cross-referencing working papers.
 - Signing off on completion checklists relating to the file assembly process.

¹² ISA (NZ) 200, paragraph [2422](#)

¹³ ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 2

¹⁴ ISA (NZ) 560, *Subsequent Events*, paragraph 14

¹⁵ ISA (NZ) 220 (Revised), paragraphs 29-34

¹⁶ Professional and Ethical Standard 3, paragraph 31(f)

¹⁷ Professional and Ethical Standard 3, paragraph A83

ISA (NZ) 230

- Documenting audit evidence that the auditor has obtained, discussed and agreed with the relevant members of the engagement team before the date of the auditor's report.
- A23. Professional and Ethical Standard 3 requires firms' systems of quality management to establish a quality objective to address the appropriate maintenance and retention of engagement documentation to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or professional standards.¹⁸ The retention period for audit engagements ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the auditor's report on the group financial statements, when applicable.¹⁹
- A24. An example of circumstances in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed is the need to clarify existing audit documentation arising from comments received during monitoring activities or external inspections.

¹⁸ Professional and Ethical Standard 3, paragraph 31(f)

¹⁹ Professional and Ethical Standard 3, paragraph A85

ISA (NZ) 230**Appendix**

(Ref: Para. 1)

Specific Audit Documentation Requirements and Guidance in Other ISAs (NZ)

This appendix identifies paragraphs in other ISAs (NZ) that contain specific documentation requirements. The list is not intended to be exhaustive. Furthermore, it is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- ISA (NZ) 210, *Agreeing the Terms of Audit Engagements* – paragraphs 10-12
- ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements* – paragraphs 41
- ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs [45-48](#) [68](#)
- ISA (NZ) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* - paragraph 30
- ISA (NZ) 260 (Revised), *Communication with Those Charged With Governance* – paragraph [23](#)[24](#)
- ISA (NZ) 300, *Planning an Audit of Financial Statements* – paragraph 11
- ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement* – paragraph 38
- ISA (NZ) 320, *Materiality in Planning and Performing an Audit* – paragraph 14
- ISA (NZ) 330, *The Auditor's Responses to Assessed Risks* – paragraphs 28-30
- ISA (NZ) 450, *Evaluation of Misstatements Identified During the Audit* – paragraph [15](#)[16](#)
- ISA (NZ) 540, *Auditing Accounting Estimates and Related Disclosures* – paragraph 37
- [ISA \(NZ\) 550, *Related Parties* – paragraph 28](#)
- [ISA \(NZ\) 570, *Going Concern* – paragraph 44](#)
- ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 59
- ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraph 36-37
- ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 25.

ISA (NZ) 230

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 230.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 230 *Audit Documentation*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

References to “management” and “those charged with governance” have been amended in the ISAs (NZ) because generally the responsibility for the preparation of the financial statements on behalf of the entity rests with those charged with governance. - The ISAs require the auditor to agree the terms of the engagement with management. - The ISAs (NZ) require agreement with those charged with governance. - Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.

Compliance with this ISA (NZ) enables compliance with ISA 230.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 230 *Audit Documentation*.

ASA 230 conforms to ISA 230.

The following requirements are additional to ISA 230 and ISA (NZ) 230:

- Where, in rare and exceptional circumstances, factors outside the auditor’s control prevent the auditor from complying with an essential procedure contained within a relevant requirement, the auditor shall document:
 - ◆ the circumstances surrounding the inability to comply;
 - ◆ the reasons for the inability to comply; and
 - ◆ justification of how alternative audit procedures achieve the objectives of the requirement. [Ref: Para Aus 12.1]

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 230 Audit Documentation</u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 250 (Revised)

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

~~This Standard was issued on 24 November 2016 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 22 December 2016.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods ending on or after 15 December 2017. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 250 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including June 2022.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 250 (Revised) issued by the External Reporting Board in December 2016.~~

COPYRIGHT

© External Reporting Board (“XRB”) 2016

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-0-947505-25-7

ISA (NZ) 250 (Revised)

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 250 (Revised) *Consideration of Laws and Regulations in an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 250 (Revised) issued by the External Reporting Board in December 2016 (as amended to June 2023).

The revision of ISA (NZ) 250 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 250 (Revised)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 250 (REVISED)

CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Commencement and Application	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1
Effect of Laws and Regulations	2
Responsibility for Compliance with Laws and Regulations	3-9
Effective Date	10
Objectives	11
Definition	12
Requirements	
The Auditor's Consideration of Compliance with Laws and Regulations	13-18
Audit Procedures When Non-Compliance Is Identified or Suspected	19-22
Communicating and Reporting Identified or Suspected Non-Compliance	23-29
Documentation	30
Application and Other Explanatory Material	
Responsibility for Compliance with Laws and Regulations	A1-A8
Definition	A9-A10
The Auditor's Consideration of Compliance with Laws and Regulations	A11-A16
Audit Procedures When Non-Compliance Is Identified or Suspected	A17-A25
Communicating and Reporting Identified or Suspected Non-Compliance	A26-A34
Documentation	A35-A36
Accompanying Attachment: Conformity to the International Standards on Auditing	

International Standard on Auditing (New Zealand) (ISA (NZ)) 250 (Revised), “*Consideration of Laws and Regulations in an Audit of Financial Statements*” should be read in conjunction with ISA (NZ) 200, “*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.”

ISA (NZ) 250 (Revised)

History of Amendments

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

This table lists the pronouncements establishing and amending ISA (NZ) 250 (Revised).

Pronouncements	Date approved	<u>Application</u>Effective date
International Standard on Auditing (New Zealand) 250 (Revised)	October 2016	<u>Periods beginning on or after 15 December 2016, refer commencement and application section.</u> Effective for audits of financial statements for periods beginning on or after 15 December 2017.
Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1	June 2020	Effective on 15 July 2020.
Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)	February 2020	Effective for audits of financial statements for periods beginning on or after 15 December 2021.
Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects	July 2021	Effective for audits of financial statements for periods beginning on or after 15 December 2022.
Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)	June 2022	Effective for audits of group financial statements for periods beginning on or after 15 December 2023.

Table of Amended Paragraphs in ISA (NZ) 250 (Revised)		
Paragraph affected	How affected	By...[date]
A8, A30	Amended	Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]
13, A23 Footnote 4	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [April 2020]

ISA (NZ) 250 (Revised)

Table of Amended Paragraphs in ISA (NZ) 250 (Revised)		
A25	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]
A8	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 250 (Revised)**Introduction****Scope of this ISA (NZ)**

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to consider laws and regulations in an audit of financial statements. This ISA (NZ) does not apply to other assurance engagements in which the auditor is specifically engaged to test and report separately on compliance with specific laws or regulations.

Effect of Laws and Regulations

2. The effect on financial statements of laws and regulations varies considerably. Those laws and regulations to which an entity is subject constitute the legal and regulatory framework. The provisions of some laws or regulations have a direct effect on the financial statements in that they determine the reported amounts and disclosures in an entity's financial statements. Other laws or regulations are to be complied with by management or set the provisions under which the entity is allowed to conduct its business but do not have a direct effect on an entity's financial statements. Some entities operate in heavily regulated industries (such as banks and chemical companies). Others are subject only to the many laws and regulations that relate generally to the operating aspects of the business (such as those related to occupational safety and health, and equal employment opportunity). Non-compliance with laws and regulations may result in fines, litigation or other consequences for the entity that may have a material effect on the financial statements.

Responsibility for Compliance with Laws and Regulations (Ref: Para. A1-A8)

3. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements.
- NZ3.1 In New Zealand, those charged with governance often have a statutory responsibility for the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.

Responsibility of the Auditor

4. The requirements in this ISA (NZ) are designed to assist the auditor in identifying material misstatement of the financial statements due to non-compliance with laws and regulations. However, the auditor is not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.
5. The auditor is responsible for obtaining reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether due to fraud

ISA (NZ) 250 (Revised)

or error.² In conducting an audit of financial statements, the auditor takes into account the applicable legal and regulatory framework. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (NZ).³ In the context of laws and regulations, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:

There are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.

- Non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor.
- Whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

Ordinarily, the further removed non-compliance is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of it or to recognise the non-compliance.

6. This ISA (NZ) distinguishes the auditor's responsibilities in relation to compliance with two different categories of laws and regulations as follows: (Ref: Para. A6, A12-A13)
 - (a) The provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements such as tax and pension laws and regulations (see paragraph 14) (Ref: Para. A12); and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (e.g., compliance with the terms of an operating licence, compliance with regulatory solvency requirements, or compliance with environmental regulations); non-compliance with such laws and regulations may therefore have a material effect on the financial statements (see paragraph 15) (Ref: Para. A13).
7. In this ISA (NZ), differing requirements are specified for each of the above categories of laws and regulations. For the category referred to in paragraph 6(a), the auditor's responsibility is to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations. For the category referred to in paragraph 6(b), the auditor's responsibility is limited to undertaking specified audit procedures to help identify non-compliance with those laws and regulations that may have a material effect on the financial statements.

² ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 5

³ ISA (NZ) 200, paragraph ~~A56-A57~~A62-A63

ISA (NZ) 250 (Revised)

8. The auditor is required by this ISA (NZ) to remain alert to the possibility that other audit procedures applied for the purpose of forming an opinion on financial statements may bring instances of non-compliance to the auditor's attention. Maintaining professional scepticism throughout the audit, as required by ISA (NZ) 200,⁴ is important in this context, given the extent of laws and regulations that affect the entity.
9. The auditor may have additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's non-compliance with laws and regulations, which may differ from or go beyond this ISA (NZ), such as: (Ref: Para A8)
 - (a) Responding to identified or suspected non-compliance with laws and regulations, including requirements in relation to specific communications with management and those charged with governance, assessing the appropriateness of their response to non-compliance and determining whether further action is needed;
 - (b) Communicating identified or suspected non-compliance with laws and regulations to other auditors (e.g., in an audit of group financial statements); and
 - (c) Documentation requirements regarding identified or suspected non-compliance with laws and regulations.

Complying with any additional responsibilities may provide further information that is relevant to the auditor's work in accordance with this and other ISAs (NZ) (e.g., regarding the integrity of management or, where appropriate, those charged with governance).

Effective Date

10. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 15 December 2017. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~
- NZ10.1 This ~~ISA (NZ) Standard supersedes repeals~~ ISA (NZ) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* issued in December 2016.

Objectives

11. The objectives of the auditor are:
 - (a) To obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements;
 - (b) To perform specified audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements; and
 - (c) To respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

⁴ ISA (NZ) 200, paragraph ~~17~~15

Definition

12. For the purposes of this ISA (NZ), the following term has the meaning attributed below:

Non-compliance – Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws or regulations. Non-compliance does not include personal misconduct unrelated to the business activities of the entity. (Ref: Para. A9-A10)

Requirements

The Auditor's Consideration of Compliance with Laws and Regulations

13. As part of obtaining an understanding of the entity and its environment in accordance with ISA (NZ) 315 (Revised 2019),⁵ the auditor shall obtain a general understanding of:
- (a) The legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates; and
 - (b) How the entity is complying with that framework. (Ref: Para. A11)
14. The auditor shall obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. (Ref: Para. A12)
15. The auditor shall perform the following audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements:
- (a) Enquiring of management and, where appropriate, those charged with governance, as to whether the entity is in compliance with such laws and regulations; and
 - (b) Inspecting correspondence, if any, with the relevant licensing or regulatory authorities. (Ref: Para. A13-A14)
16. During the audit, the auditor shall remain alert to the possibility that other audit procedures applied may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. (Ref: Para. A15)
17. [Amended by the NZAuASB.]
- NZ17.1 The auditor shall request those charged with governance to provide written representations that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed to the auditor. (Ref: Para. A16)
18. In the absence of identified or suspected non-compliance, the auditor is not required to perform audit procedures regarding the entity's compliance with laws and regulations, other than those set out in paragraphs 13-17.

⁵ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 19.

ISA (NZ) 250 (Revised)**Audit Procedures when Non-Compliance is Identified or Suspected**

19. If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain: (Ref: Para. A17-A18)
 - (a) An understanding of the nature of the act and the circumstances in which it has occurred; and
 - (b) Further information to evaluate the possible effect on the financial statements. (Ref: Para. A19)
20. If the auditor suspects there may be non-compliance, the auditor shall discuss the matter, unless prohibited by law or regulation, with the appropriate level of management and, where appropriate, those charged with governance. If management or, as appropriate, those charged with governance do not provide sufficient information that supports that the entity is in compliance with laws and regulations and, in the auditor's judgement, the effect of the suspected non-compliance may be material to the financial statements, the auditor shall consider the need to obtain legal advice. (Ref: Para. A20-A22)
21. If sufficient information about suspected non-compliance cannot be obtained, the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.
22. The auditor shall evaluate the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action. (Ref: Para. A23-A25)

Communicating and Reporting Identified or Suspected Non-Compliance*Communicating Identified or Suspected Non-Compliance with Those Charged with Governance*

23. Unless all of those charged with governance are involved in management of the entity, and therefore are aware of matters involving identified or suspected non-compliance already communicated by the auditor,⁶ the auditor shall communicate, unless prohibited by law or regulation, with those charged with governance matters involving non-compliance with laws and regulations that come to the auditor's attention during the course of the audit, other than when the matters are clearly inconsequential.
24. If, in the auditor's judgement, the non-compliance referred to in paragraph 23 is believed to be intentional and material, the auditor shall communicate the matter with those charged with governance as soon as practicable.
25. If the auditor suspects that management or those charged with governance are involved in non-compliance, the auditor shall communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board. Where no higher authority exists, or if the auditor believes that the communication may not be acted upon or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice.

⁶ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

ISA (NZ) 250 (Revised)*Potential Implications of Identified or Suspected Non-Compliance for the Auditor's Report (Ref: Para A26-A27)*

26. If the auditor concludes that the identified or suspected non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, the auditor shall, in accordance with ISA (NZ) 705 (Revised), express a qualified opinion or an adverse opinion on the financial statements.⁷
27. If the auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit in accordance with ISA (NZ) 705 (Revised).⁸
28. If the auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion in accordance with ISA (NZ) 705 (Revised).

Reporting Identified or Suspected Non-Compliance to an Appropriate Authority outside the Entity

29. If the auditor has identified or suspects non-compliance with laws and regulations, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A28-A34)
 - (a) Require the auditor to report to an appropriate authority outside the entity.
 - (b) Establish responsibilities or rights under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Documentation

30. The auditor shall include in the audit documentation⁹ identified or suspected non-compliance with laws and regulations and: (Ref: Para. A35-A36)
 - (a) The audit procedures performed, the significant professional judgements made and the conclusions reached thereon; and
 - (b) The discussions of significant matters related to the non-compliance with management, those charged with governance and others, including how management and, where applicable, those charged with governance have responded to the matter.

Application and Other Explanatory Material**Responsibility for Compliance with Laws and Regulations (Ref: Para. 3-9)**

⁷ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7-8

⁸ ISA (NZ) 705 (Revised), paragraphs 7 and 9

⁹ ISA (NZ) 230, *Audit Documentation*, paragraphs 8-11, and paragraph A6

ISA (NZ) 250 (Revised)

- A1. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with laws and regulations. Laws and regulations may affect an entity's financial statements in different ways: for example, most directly, they may affect specific disclosures required of the entity in the financial statements or they may prescribe the applicable financial reporting framework. They may also establish certain legal rights and obligations of the entity, some of which will be recognised in the entity's financial statements. In addition, laws and regulations may impose penalties in cases of non-compliance.
- A2. The following are examples of the types of policies and procedures an entity may implement to assist in the prevention and detection of non-compliance with laws and regulations:
- Monitoring legal requirements and ensuring that operating procedures are designed to meet these requirements.
 - Instituting and operating appropriate systems of internal control.
 - Developing, publicising and following a code of conduct.
 - Ensuring employees are properly trained and understand the code of conduct.
 - Monitoring compliance with the code of conduct and acting appropriately to discipline employees who fail to comply with it.
 - Engaging legal advisors to assist in monitoring legal requirements.
 - Maintaining a register of significant laws and regulations with which the entity has to comply within its particular industry and a record of complaints.

In larger entities, these policies and procedures may be supplemented by assigning appropriate responsibilities to the following:

- An internal audit function.
- An audit committee.
- A compliance function.

Responsibility of the Auditor

- A3. Non-compliance by the entity with laws and regulations may result in a material misstatement of the financial statements. Detection of non-compliance, regardless of materiality, may affect other aspects of the audit including, for example, the auditor's consideration of the integrity of management, those charged with governance or employees.
- A4. Whether an act constitutes non-compliance with laws and regulations is a matter to be determined by a court or other appropriate adjudicative body, which is ordinarily beyond the auditor's professional competence to determine. Nevertheless, the auditor's training, experience and understanding of the entity and its industry or sector may provide a basis to recognise that some acts, coming to the auditor's attention, may constitute non-compliance with laws and regulations.
- A5. In accordance with specific statutory requirements, the auditor may be specifically required to report, as part of the audit of the financial statements, on whether the entity complies with certain provisions of laws or regulations. In these circumstances,

ISA (NZ) 250 (Revised)

ISA (NZ) 700 (Revised)¹⁰ or ISA (NZ) 800 (Revised)¹¹ deal with how these audit responsibilities are addressed in the auditor's report. Furthermore, where there are specific statutory reporting requirements, it may be necessary for the audit plan to include appropriate tests for compliance with these provisions of the laws and regulations.

Categories of Laws and Regulations (Ref: Para. 6)

A6. The nature and circumstances of the entity may impact whether relevant laws and regulations are within the categories of laws and regulations described in paragraphs 6(a) or 6(b). Examples of laws and regulations that may be included in the categories described in paragraph 6 include those that deal with:

- Fraud, corruption and bribery.
- Money laundering, terrorist financing and proceeds of crime.
- Securities markets and trading.
- Banking and other financial products and services.
- Data protection.
- Tax and pension liabilities and payments.
- Environmental protection.
- Public health and safety.

Considerations Specific to Public Sector Entities

A7. In the public sector, there may be additional audit responsibilities with respect to the consideration of laws and regulations which may relate to the audit of financial statements or may extend to other aspects of the entity's operations.

Additional Responsibilities Established by Law, Regulation or Relevant Ethical Requirements (Ref: Para. 9)

A8. Law, regulation or relevant ethical requirements may require the auditor to perform additional procedures and take further actions. For example, Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed. Such steps may include the communication of identified or suspected non-compliance with laws and regulations between auditors within the engagement team, or other auditors performing work at entities or business units of a group for purposes other than the audit of the group financial statements.¹²

¹⁰ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 43

¹¹ ISA (NZ) 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 11

¹² See, for example, paragraphs NZ R360.16.1-360.18 A1 of Professional and Ethical Standard 1

ISA (NZ) 250 (Revised)**Definition** (Ref: Para. 12)

- A9. Acts of non-compliance with laws and regulations include transactions entered into by, or in the name of, the entity, or on its behalf, by those charged with governance, by management or by other individuals working for or under the direction of the entity.
- A10. Non-compliance also includes personal misconduct related to the business activities of the entity, for example, in circumstances where an individual in a key management position, in a personal capacity, has accepted a bribe from a supplier of the entity and in return secures the appointment of the supplier to provide services or contracts to the entity.

The Auditor's Consideration of Compliance with Laws and Regulations*Obtaining an Understanding of the Legal and Regulatory Framework* (Ref: Para. 13)

- A11. To obtain a general understanding of the legal and regulatory framework, and how the entity complies with that framework, the auditor may, for example:
- Use the auditor's existing understanding of the entity's industry, regulatory and other external factors;
 - Update the understanding of those laws and regulations that directly determine the reported amounts and disclosures in the financial statements;
 - Enquire of management as to other laws or regulations that may be expected to have a fundamental effect on the operations of the entity;
 - Enquire of management concerning the entity's policies and procedures regarding compliance with laws and regulations; and
 - Enquire of management regarding the policies or procedures adopted for identifying, evaluating and accounting for litigation claims.

Laws and Regulations Generally Recognised to Have a Direct Effect on the Determination of Material Amounts and Disclosures in the Financial Statements (Ref: Para's. 6, 14)

- A12. Certain laws and regulations are well-established, known to the entity and within the entity's industry or sector, and relevant to the entity's financial statements (as described in paragraph 6(a)). They could include those that relate to, for example:
- The form and content of financial statements;
 - Industry-specific financial reporting issues;
 - Accounting for transactions under government contracts; or
 - The accrual or recognition of expenses for income tax or pension costs.

Some provisions in those laws and regulations may be directly relevant to specific assertions in the financial statements (e.g., the completeness of income tax provisions), while others may be directly relevant to the financial statements as a whole (e.g., the required statements constituting a complete set of financial statements). The aim of the requirement in paragraph 14 is for the auditor to obtain sufficient appropriate audit evidence regarding the determination of amounts and disclosures in the financial statements in compliance with the relevant provisions of those laws and regulations.

ISA (NZ) 250 (Revised)

Non-compliance with other provisions of such laws and regulations and other laws and regulations may result in fines, litigation or other consequences for the entity, the costs of which may need to be provided for in the financial statements, but are not considered to have a direct effect on the financial statements as described in paragraph 6(a).

Procedures to Identify Instances of Non-Compliance—Other Laws and Regulations (Ref: Para's. 6, 15)

A13. Certain other laws and regulations may need particular attention by the auditor because they have a fundamental effect on the operations of the entity (as described in paragraph 6(b)). Non-compliance with laws and regulations that have a fundamental effect on the operations of the entity may cause the entity to cease operations, or call into question the entity's ~~ability to continue~~ *continue* as a going concern.¹³ For example, non-compliance with the requirements of the entity's licence or other entitlement to perform its operations could have such an impact (e.g., for a bank, non-compliance with capital or investment requirements). There are also many laws and regulations relating principally to the operating aspects of the entity that typically do not affect the financial statements and are not captured by the entity's information systems relevant to financial reporting.

A14. As the financial reporting consequences of other laws and regulations can vary depending on the entity's operations, the audit procedures required by paragraph 15 are directed to bringing to the auditor's attention instances of non-compliance with laws and regulations that may have a material effect on the financial statements.

Non-Compliance Brought to the Auditor's Attention by Other Audit Procedures (Ref: Para. 16)

A15. Audit procedures applied to form an opinion on the financial statements may bring instances of non-compliance or suspected non-compliance with laws and regulations to the auditor's attention. For example, such audit procedures may include:

- Reading minutes;
- Enquiring of the entity's management and in-house legal counsel or external legal counsel concerning litigation, claims and assessments; and
- Performing substantive tests of details of classes of transactions, account balances or disclosures.

Written Representations (Ref: Para. 17)

A16. [Amended by the NZAuASB.]

NZA16.1 Because the effect on financial statements of laws and regulations can vary considerably, written representations provide necessary audit evidence about the knowledge of those charged with governance of identified or suspected non-compliance with laws and regulations, whose effects may have a material effect on the financial statements. However, written representations do not provide sufficient appropriate audit evidence on their own and, accordingly, do not affect the nature and extent of other audit evidence that is to be obtained by the auditor.¹⁴

¹³ ISA (NZ) 570-(Revised), *Going Concern*.

¹⁴ ISA (NZ) 580, *Written Representations*, paragraph 4

Audit Procedures When Non-Compliance Is Identified or Suspected

Indications of Non-Compliance with Laws and Regulations (Ref: Para. 19)

A17 The auditor may become aware of information concerning an instance of non-compliance with laws and regulations other than as a result of performing the procedures in paragraphs 13–17 (e.g., when the auditor is alerted to non-compliance by a ~~whistle-blower~~whistleblower).

A18. The following matters may be an indication of non-compliance with laws and regulations:

- Investigations by regulatory organisations and government departments or payment of fines or penalties.
- Payments for unspecified services or loans to consultants, related parties, employees or government employees.
- Sales commissions or agent's fees that appear excessive in relation to those ordinarily paid by the entity or in its industry or to the services actually received.
- Purchasing at prices significantly above or below market price.
- Unusual payments in cash, purchases in the form of cashiers' cheques payable to bearer or transfers to numbered bank accounts.
- Unusual transactions with companies registered in tax havens.
- Payments for goods or services made other than to the country from which the goods or services originated.
- Payments without proper exchange control documentation.
- Existence of an information system which fails, whether by design or by accident, to provide an adequate audit trail or sufficient evidence.
- Unauthorised transactions or improperly recorded transactions.
- Adverse media comment.

Matters Relevant to the Auditor's Evaluation (Ref: Para. 19(b))

A19. Matters relevant to the auditor's evaluation of the possible effect on the financial statements include:

- The potential financial consequences of identified or suspected non-compliance with laws and regulations on the financial statements including, for example, the imposition of fines, penalties, damages, threat of expropriation of assets, enforced discontinuation of operations, and litigation.
- Whether the potential financial consequences require disclosure.
- Whether the potential financial consequences are so serious as to call into question the fair presentation of the financial statements, or otherwise make the financial statements misleading.

ISA (NZ) 250 (Revised)*Audit Procedures and Communicating Identified or Suspected Non-Compliance with Management and Those Charged with Governance (Ref: Para. 20)*

- A20. The auditor is required to discuss the suspected non-compliance with the appropriate level of management and, where appropriate, those charged with governance, as they may be able to provide additional audit evidence. For example, the auditor may confirm that management and, where appropriate, those charged with governance have the same understanding of the facts and circumstances relevant to transactions or events that have led to the suspected non-compliance with laws and regulations.
- A21. However, in some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with management and those charged with governance. Law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report the identified or suspected non-compliance to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.
- A22. If management or, as appropriate, those charged with governance do not provide sufficient information to the auditor that the entity is in fact in compliance with laws and regulations, the auditor may consider it appropriate to consult with the entity's in-house or external legal counsel about the application of the laws and regulations to the circumstances, including the possibility of fraud, and the possible effects on the financial statements. If it is not considered appropriate to consult with the entity's legal counsel or if the auditor is not satisfied with the legal counsel's opinion, the auditor may consider it appropriate to consult on a confidential basis with others within the firm, a network firm, a professional body, or with the auditor's legal counsel as to whether a contravention of a law or regulation is involved, including the possibility of fraud, the possible legal consequences, and what further action, if any, the auditor would take.

Evaluating the Implications of Identified or Suspected Non-Compliance (Ref: Para. 22)

- A23. As required by paragraph 22, the auditor evaluates the implications of identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations. The implications of particular identified or suspected non-compliance will depend on the relationship of the perpetration and concealment, if any, of the act to specific controls and the level of management or individuals working for, or under the direction of, the entity involved, especially implications arising from the involvement of the highest authority within the entity. As noted in paragraph 9, the auditor's compliance with law, regulation or relevant ethical requirements may provide further information that is relevant to the auditor's responsibilities in accordance with paragraph 22.
- A24. Examples of circumstances that may cause the auditor to evaluate the implications of identified or suspected non-compliance on the reliability of written representations received from management and, where applicable, those charged with governance include when:

ISA (NZ) 250 (Revised)

- The auditor suspects or has evidence of the involvement or intended involvement of management and, where applicable, those charged with governance in any identified or suspected non-compliance.
- The auditor is aware that management and, where applicable, those charged with governance have knowledge of such non-compliance and, contrary to legal or regulatory requirements have not reported or authorised reporting of the matter to an appropriate authority within a reasonable period.

A25. In certain circumstances, the auditor may consider withdrawing from the engagement, where permitted by law or regulation, for example, when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances, or the identified or suspected non-compliance raises questions regarding the integrity of management, even when the non-compliance is not material to the financial statements. The auditor may consider it appropriate to obtain legal advice to determine whether withdrawal from the engagement is appropriate. When the auditor determines that withdrawing from the engagement would be appropriate, doing so would not be a substitute for complying with other responsibilities under law, regulation or relevant ethical requirements to respond to identified or suspected non-compliance. Furthermore, paragraph A55 of ISA (NZ) 220 (Revised)¹⁵ indicates that some ethical requirements may require the predecessor auditor, upon request by the proposed successor auditor, to provide information regarding non-compliance with laws and regulations to the successor auditor.

Communicating and Reporting Identified or Suspected Non-Compliance

Potential Implications of Identified or Suspected Non-Compliance for the Auditor's Report (Ref: Para. 26-28)

A26. Identified or suspected non-compliance with laws and regulation is communicated in the auditor's report when the auditor modifies the opinion in accordance with paragraphs 26-28. In certain other circumstances, the auditor may communicate identified or suspected non-compliance in the auditor's report, for example:

- When the auditor has other reporting responsibilities, in addition to the auditor's responsibilities under the ISAs, as contemplated by paragraph 43 of ISA (NZ) 700 (Revised);
- When the auditor determines that the identified or suspected non-compliance is a key audit matter and accordingly communicates the matter in accordance with ISA (NZ) 701,¹⁶ unless paragraph 14 of that ISA (NZ) applies; or
- In exceptional cases when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances and withdrawal from the engagement is not possible (see paragraph A25), the auditor may consider describing the identified or suspected non-

¹⁵ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*

¹⁶ ISA (NZ) 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA (NZ) 250 (Revised)

compliance in an Other Matter paragraph in accordance with ISA (NZ) 706 (Revised).¹⁷

A27. Law or regulation may preclude public disclosure by either management, those charged with governance or the auditor about a specific matter. For example, law or regulation may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including a prohibition on alerting the entity. When the auditor intends to communicate identified or suspected non-compliance in the auditor's report under the circumstances set out in paragraph A26 or otherwise, such law or regulation may have implications for the auditor's ability to describe the matter in the auditor's report, or in some circumstances to issue the auditor's report. In such cases, the auditor may consider obtaining legal advice to determine the appropriate course of action.

Reporting Identified or Suspected Non-Compliance to an Appropriate Authority Outside the Entity (Ref: Para. 29)

A28. Reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be required or appropriate in the circumstances because:

- (a) Law, regulation or relevant ethical requirements require the auditor to report (see paragraph A29);
- (b) The auditor has determined reporting is an appropriate action to respond to identified or suspected non-compliance in accordance with relevant ethical requirements (see paragraph A30); or
- (c) Law, regulation or relevant ethical requirements provide the auditor with the right to do so (see paragraph A31).

A29. In some jurisdictions, the auditor may be required by law, regulation or relevant ethical requirements to report identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity. For example, in some jurisdictions, statutory requirements exist for the auditor of a financial institution to report the occurrence, or suspected occurrence, of non-compliance with laws and regulations to a supervisory authority. Also, misstatements may arise from non-compliance with laws or regulations and, in some jurisdictions, the auditor may be required to report misstatements to an appropriate authority in cases where management or those charged with governance fail to take corrective action.

A30. In other cases, the relevant ethical requirements may require the auditor to determine whether reporting identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity is an appropriate action in the circumstances. For example, Professional and Ethical Standard 1, requires the auditor to take steps to respond to identified or suspected non-compliance with laws and regulations and determine whether further action is needed, which may include reporting to an appropriate authority outside the entity.¹⁸ Professional and Ethical Standard 1 explains

¹⁷ ISA (NZ) 706 (Revised) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

¹⁸ See, for example, paragraphs 360.21 A1 and 360.25 A1-R360.27 of Professional and Ethical Standard 1

ISA (NZ) 250 (Revised)

that such reporting would not be considered a breach of the duty of confidentiality under Professional and Ethical Standard 1.¹⁹

- A31. Even if law, regulation or relevant ethical requirements do not include requirements that address reporting identified or suspected non-compliance, they may provide the auditor with the right to report identified or suspected non-compliance to an appropriate authority outside the entity. For example, when auditing the financial statements of financial institutions, the auditor may have the right under law or regulation to discuss matters, such as identified or suspected non-compliance with laws and regulations with a supervisory authority.
- A32. In other circumstances, the reporting of identified or suspected non-compliance with laws and regulations to an appropriate authority outside the entity may be precluded by the auditor's duty of confidentiality under law, regulation or relevant ethical requirements.
- A33. The determination required by paragraph 29 may involve complex considerations and professional judgements. Accordingly the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor's options and the professional or legal implications of taking any particular course of action.

Considerations Specific to Public Sector Entities

- A34. A public sector auditor may be obliged to report on identified or suspected non-compliance to the legislature or other governing body or to report them in the auditor's report.

Documentation (Ref: Para. 30)

- A35. The auditor's documentation of findings regarding identified or suspected non-compliance with laws and regulations may include, for example:
- Copies of records or documents.
 - Minutes of discussions held with management, those charged with governance or parties outside the entity.
- A36. Law, regulation or relevant ethical requirements may also set out additional documentation requirements regarding identified or suspected non-compliance with laws and regulations.²⁰

¹⁹ See, for example, paragraphs R114.1-114.1 A1 and R360.26 of Professional and Ethical Standard 1

²⁰ See, for example, paragraph R360.28 of Professional and Ethical Standard 1

ISA (NZ) 250 (Revised)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

~~This conformity statement accompanies but is not part of ISA (NZ) 250 (Revised).~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*, issued by the International Auditing and Assurance Standards Board (IAASB), ~~an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been ~~amended or~~ added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

ISA (NZ) 250 contains the following additional requirement:

- In New Zealand, those charged with governance often have a statutory responsibility for the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both. (Ref: Para. NZ3.1)
- The ISAs require the auditor to obtain written representations from management. The ISAs (NZ) require written representations from those charged with governance. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs. (Ref: Para. NZ17.1)

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 250.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 250 (Revised) Consideration of Laws and Regulations in an Audit of Financial Statements</u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>

ISA (NZ) 260 (Revised)Issued ~~10/15~~10/25

Compiled 10/24



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 260 (REVISED)**Communication with Those Charged with Governance (ISA (NZ) 260 (Revised))**

~~This Standard was issued on 1 October 2015 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 28 October 2015.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods ending on or after 15 December 2016. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 260 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 260 *Communication with Those Charged with Governance*.~~

~~This compilation was prepared in October 2024 and incorporates amendments up to and including November 2023.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 260 (Revised) issued by the External Reporting Board in July 2011.

COPYRIGHT

© External Reporting Board (“XRB”) 2015

~~This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.~~

~~Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz~~

~~All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org~~

ISBN 978-1-927292-88-4

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 260 (Revised) *Communication with Those Charged with Governance* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 260 (Revised) issued by the External Reporting Board in October 2015 (as amended to November 2023).

The revision of ISA (NZ) 260 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 260 (REVISED)

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE*Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1–3
The Role of Communication	4–7
Effective Date	8–NZ8.1
Objectives	9
Definitions	10
Requirements	
Those Charged with Governance	11–13
Matters to Be Communicated	14– ~~17~~ <u>19</u>
The Communication Process	~~18~~ <u>20</u> – ~~24~~ <u>22</u>
Documentation	~~23~~ <u>25</u>
Application and Other Explanatory Material	
Those Charged with Governance	A1–A8
Matters to Be Communicated	A9–A36
The Communication Process	A37–A53
Documentation	A54
Appendix 1: Specific Requirements in Professional and Ethical Standard 3 (Amended) and Other ISAs (NZ) that Refer to Communications with Those Charged with Governance	
Appendix 2: Qualitative Aspects of Accounting Practices	
~~Accompanying Attachment: Conformity to the International Standards on Auditing~~	

International Standard on Auditing (New Zealand) (ISA (NZ)) 260 (Revised), *Communication with Those Charged with Governance*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives*

ISA (NZ) 260 (REVISED)

***of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards
on Auditing (New Zealand).***

ISA (NZ) 260 (REVISED)

History of Amendments

Table of pronouncements – ISA (NZ) 260 (Revised) *Communication with Those Charged with Governance*

This table lists the pronouncements establishing and amending ISA (NZ) 260 (Revised).

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 260 (Revised)	~~October 2015~~ September 2015	~~Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for audits of historical financial statements for periods ending on or after 15 December 2016.~~
~~Conforming Amendments to ISAs (NZ) and Other Pronouncements (NOCLAR)~~	~~October 2016~~	~~Effective for audits of historical financial statements for periods ending on or after 15 December 2017.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates)~~	~~October 2018~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2019.~~
~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1~~	~~June 2020~~	~~Effective on 15 July 2020.~~
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021.~~
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~	~~July 2021~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)~~	~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~
~~Narrow Scope Amendments to ISAs (NZ) due to Public Interest Entity Revisions~~	~~November 2023~~	~~Mandatory date of 15 December 2024.~~

ISA (NZ) 260 (REVISED)

Table of Amended Paragraphs in ISA (NZ) 260 (Revised)		
Paragraph affected	How affected	By...[date]
~~7~~	~~Amended~~	~~Conforming Amendments to ISAs (NZ) and Other Pronouncements (NOCLAR) [Oct 2016]~~
~~A19, A20, Appendix 1 & 2~~	~~Amended~~	~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates) [Oct 2018]~~
~~NZ17.1, A30, A31, A49~~	~~Amended~~	~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]~~
~~3, A3, A12-A14, A33, A49, A52~~	~~Amended~~	~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [Feb 2020]~~
~~Footnotes 4 & 29~~		
~~A28, A29, Appendix 1~~	~~Amended~~	~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]~~
~~A4, Appendix 1~~	~~Amended~~	~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]~~
~~A29~~ ~~16A~~	~~Amended~~ ~~Added~~	~~Narrow Scope Amendments to ISAs (NZ) due to Public Interest Entity Revisions [November 2023]~~

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. [Amended by the NZAuASB].
- NZ1.1 This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this ISA (NZ) applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for FMC reporting entities considered to have a higher level of public accountability. This ISA (NZ) does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.
2. This ISA (NZ) is written in the context of an audit of financial statements, but may also be applicable, adapted as necessary in the circumstances, to audits of other historical financial information when those charged with governance have a responsibility to oversee the preparation of the other historical financial information.
3. Recognising the importance of effective two-way communication in an audit of financial statements, this ISA (NZ) provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of this ISA (NZ), are identified in other ISAs (NZ) (see Appendix 1). In addition, ISA (NZ) 265² establishes specific requirements regarding the communication of significant deficiencies in the entity's system of internal control the auditor has identified during the audit to those charged with governance. Further matters, not required by this or other ISAs (NZ), may be required to be communicated by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement. Nothing in this ISA (NZ) precludes the auditor from communicating any other matters to those charged with governance. (Ref: Para. A33–A36)

The Role of Communication

4. This ISA (NZ) focuses primarily on communications from the auditor to those charged with governance. Nevertheless, effective two-way communication is important in assisting:
 - (a) The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity;
 - (b) The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and

² ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

ISA (NZ) 260 (REVISED)

- (c) Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial statements.
- 5. Although the auditor is responsible for communicating matters required by this ISA (NZ), management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility. Similarly, communication by management with those charged with governance of matters that the auditor is required to communicate does not relieve the auditor of the responsibility to also communicate them. Communication of these matters by management may, however, affect the form or timing of the auditor's communication with those charged with governance.
- 6. Clear communication of specific matters required to be communicated by ISAs (NZ) is an integral part of every audit. ISAs (NZ) do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.
- 7. In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with those charged with governance. Laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

Effective Date

- 8. ~~This ISA (NZ) is effective for audits of financial statements for periods ending on or after 15 December 2016. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~
- NZ8.1 ~~This ISA (NZ) supersedes ISA (NZ) 260, *Communication with Those Charged with Governance*. This Standard repeals ISA (NZ) 260 *Communication with Those Charged with Governance* issued in October 2015.~~

Objectives

- 9. The objectives of the auditor are:
 - (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
 - (b) To obtain from those charged with governance information relevant to the audit;
 - (c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and

ISA (NZ) 260 (REVISED)

- (d) To promote effective two-way communication between the auditor and those charged with governance.

Definitions

10. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Those charged with governance – The person(s) or organisation(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1–A8.
 - (b) Management – The person(s) with executive responsibility for the conduct of the entity's operations. For some entities, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

Requirements**Those Charged with Governance**

11. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. (Ref: Para. A1–A4)

Communication with a Subgroup of Those Charged with Governance

12. If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body. (Ref: Para. A5–A7)

When All of Those Charged with Governance Are Involved in Managing the Entity

13. In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this ISA (NZ) are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. These matters are noted in paragraph 16(c). The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (Ref: Para. A8)

Matters to Be Communicated*The Auditor's Responsibilities in Relation to the Financial Statement Audit*

14. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:

ISA (NZ) 260 (REVISED)

- (a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and
- (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A9–A10)

Planned Scope and Timing of the Audit

- 15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor. (Ref: Para. A11–A16)

Significant Findings from the Audit

- 16. The auditor shall communicate with those charged with governance: (Ref: Para. A17–A18)
 - (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19–A20)
 - (b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A21)
 - (c) Unless all of those charged with governance are involved in managing the entity:
 - (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A22)
 - (ii) Written representations the auditor is requesting;
 - (d) Circumstances that affect the form and content of the auditor's report, if any; and (Ref: Para. A23–A25)
 - (e) Any other significant matters arising during the audit that, in the auditor's professional judgement, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)

Auditor Independence

- 17. ~~16A.~~ The auditor shall communicate with those charged with governance the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement, including if applicable in the circumstances, any independence requirements specific to audits of financial statements of certain entities. (Ref: Para. A29)

Auditor Independence

~~19.18.~~ ~~_____~~ [Amended by the NZAuASB].

~~NZ17.1 — In the case of FMC reporting entities considered to have a higher level of public accountability, the auditor shall communicate with those charged with governance:~~

ISA (NZ) 260 (REVISED)

~~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~~

19. [Amended by the NZAuASB]

NZ19 For audits of financial statements of FMC reporting entities considered to have a higher level of public accountability, the statement required in paragraph 18 shall include:

- (a) ~~(+)~~ 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 (Ref: Para A30)
- (b) ~~(+)~~ In respect of threats to independence that are not at an acceptable level, the actions taken to address the threats, including actions that were taken to eliminate the circumstances that create the threats or applying safeguards to reduce the threats to an acceptable level. (Ref: Para. A3~~10~~–A3~~32~~)

The Communication Process

Establishing the Communication Process

- 20. The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (Ref: Para. A37–A45)

Forms of Communication

- 21. The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgement, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A46–A48)
- 22. The auditor shall communicate in writing with those charged with governance regarding auditor independence ~~when~~ as-required by paragraphs 17 - 19.

Timing of Communications

- 23. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A49–A50)

Adequacy of the Communication Process

- 24. The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action. (Ref: Para. A51–A53)

Documentation

25. Where matters required by this ISA (NZ) to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.³ (Ref: Para. A54)

Application and Other Explanatory Material

Those Charged with Governance (Ref: Para. 11)

- A1. Governance structures vary by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example:
- In some cases, a supervisory (wholly or mainly non-executive) board exists that is legally separate from an executive (management) board (a “two-tier board” structure). In other cases, both the supervisory and executive functions are the legal responsibility of a single, or unitary, board (a “one-tier board” structure).
 - In some entities, those charged with governance hold positions that are an integral part of the entity’s legal structure, for example, company directors. In others, for example, some government entities, a body that is not part of the entity is charged with governance.
 - In some cases, some or all of those charged with governance are involved in managing the entity. In others, those charged with governance and management comprise different persons.
 - In most cases, those charged with governance are responsible for approving⁴ the entity’s financial statements (in other cases management has this responsibility).
- A2. In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees, or equivalent persons. In some smaller entities, however, one person may be charged with governance, for example, the owner-manager where there are no other owners, or a sole trustee. When governance is a collective responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities. Alternatively, a subgroup or individual may have specific, legally identified responsibilities that differ from those of the governing body.
- A3. Such diversity means that it is not possible for this ISA (NZ) to specify for all audits the person(s) with whom the auditor is to communicate particular matters. Also, in some cases, the appropriate person(s) with whom to communicate may not be clearly identifiable from the applicable legal framework or other engagement circumstances, for example, entities where the governance structure is not formally defined, such as some family-owned

³ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11, and A6

⁴ As described in paragraph A689 of ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, having responsibility for approving in this context means having the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared.

ISA (NZ) 260 (REVISED)

entities, some not-for-profit organisations, and some government entities. In such cases, the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate. In deciding with whom to communicate, the auditor's understanding of an entity's governance structure and processes obtained in accordance with ISA (NZ) 315 (Revised 2019)⁵ is relevant. The appropriate person(s) with whom to communicate may vary depending on the matter to be communicated.

- A4. ISA (NZ) 600 (Revised) includes specific matters to be communicated by the group auditor with those charged with governance of the group.⁶ The matters communicated may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Component auditors may also communicate matters to those charged with governance of the component.⁷ In those circumstances, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of entities or business units may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those entities or business units are the same (e.g., common board of directors), duplication may be avoided by dealing with these entities or business units concurrently for the purpose of communication.

Communication with a Subgroup of Those Charged with Governance (Ref: Para. 12)

- A5. When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters as:
- The respective responsibilities of the subgroup and the governing body.
 - The nature of the matter to be communicated.
 - Relevant legal or regulatory requirements.
 - Whether the subgroup has the authority to take action in relation to the information communicated, and can provide further information and explanations the auditor may need.
- A6. When deciding whether there is also a need to communicate information, in full or in summary form, with the governing body, the auditor may be influenced by the auditor's assessment of how effectively and appropriately the subgroup communicates relevant information with the governing body. The auditor may make explicit in agreeing the terms of engagement that, unless prohibited by law or regulation, the auditor retains the right to communicate directly with the governing body.
- A7. Audit committees (or similar subgroups with different names) exist in many entities. Although their specific authority and functions may differ, communication with the audit committee, where one exists, has become a key element in the auditor's communication with those charged with governance. Good governance principles suggest that:

⁵ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁶ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 57

⁷ ISA (NZ) 600 (Revised), paragraph 465(i)

ISA (NZ) 260 (REVISED)

- The auditor will be invited to regularly attend meetings of the audit committee.
- The chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with the auditor periodically.
- The audit committee will meet the auditor without management present at least annually.

When All of Those Charged with Governance Are Involved in Managing the Entity (Ref: Para.13)

- A8. In some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognise this position. In such cases, communication with person(s) with management responsibilities may not adequately inform all of those with whom the auditor would otherwise communicate in their governance capacity. For example, in a company where all directors are involved in managing the entity, some of those directors (e.g., one responsible for marketing) may be unaware of significant matters discussed with another director (e.g., one responsible for the preparation of the financial statements).

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the Financial Statement Audit (Ref: Para. 14)

- A9. The auditor's responsibilities in relation to the financial statement audit are often included in the engagement letter or other suitable form of written agreement that records the agreed terms of the engagement.⁸ Law, regulation or the governance structure of the entity may require those charged with governance to agree the terms of the engagement with the auditor. When this is not the case, providing those charged with governance with a copy of that engagement letter⁹ or other suitable form of written agreement may be an appropriate way to communicate with them regarding such matters as:
- The auditor's responsibility for performing the audit in accordance with ISAs (NZ), which is directed towards the expression of an opinion on the financial statements. The matters that ISAs (NZ) require to be communicated, therefore, include significant matters arising during the audit of the financial statements that are relevant to those charged with governance in overseeing the financial reporting process.
 - The fact that ISAs (NZ) do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.
 - When ISA (NZ) 701¹⁰ applies, the auditor's responsibilities to determine and communicate key audit matters in the auditor's report.
 - When applicable, the auditor's responsibility for communicating particular matters required by law or regulation, by agreement with the entity or by additional requirements applicable to the engagement.

⁸ See paragraph 10 of ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*.

⁹ This letter will have been signed by representatives of the governing body. The auditor should therefore ensure that the letter has been brought to the attention of all of those charged with governance.

¹⁰ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA (NZ) 260 (REVISED)

A10. Law or regulation, an agreement with the entity or additional requirements applicable to the engagement may provide for broader communication with those charged with governance. For example, (a) an agreement with the entity may provide for particular matters to be communicated when they arise from services provided by a firm or network firm other than the financial statement audit; or (b) the mandate of a public sector auditor may provide for matters to be communicated that come to the auditor's attention as a result of other work, such as performance audits.

Planned Scope and Timing of the Audit (Ref: Para. 15)

A11. Communication regarding the planned scope and timing of the audit may:

- (a) Assist those charged with governance to understand better the consequences of the auditor's work, to discuss issues of risk and the concept of materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures; and
- (b) Assist the auditor to understand better the entity and its environment.

A12. Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they were determined to be significant risks. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.

A13. Matters communicated may include:

- How the auditor plans to address the significant risks of material misstatement, whether due to fraud or error.
- How the auditor plans to address areas of higher assessed risks of material misstatement.
- The auditor's approach to the entity's system of internal control.
- The application of the concept of materiality in the context of an audit.¹¹
- The nature and extent of specialised skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, including the use of an auditor's expert.¹²
- When ISA (NZ) 701 applies, the auditor's preliminary views about matters that may be areas of significant auditor attention in the audit and therefore may be key audit matters.
- The auditor's planned approach to addressing the implications on the individual statements and the disclosures of any significant changes within the applicable financial reporting framework or in the entity's environment, financial condition or activities.

A14. Other planning matters that it may be appropriate to discuss with those charged with governance include:

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

¹² See ISA (NZ) 620, *Using the Work of an Auditor's Expert*.

ISA (NZ) 260 (REVISED)

- Where the entity has an internal audit function, how the external auditor and internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance.¹³
- The views of those charged with governance about:
 - The appropriate person(s) in the entity's governance structure with whom to communicate.
 - The allocation of responsibilities between those charged with governance and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.
 - Significant communications between the entity and regulators.
 - Other matters those charged with governance consider may influence the audit of the financial statements.
- The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's system of internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of the entity's system of internal control, and (b) the detection or possibility of fraud.
- The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters, and the effect of such developments on, for example, the overall presentation, structure and content of the financial statements, including:
 - The relevance, reliability, comparability and understandability of the information presented in the financial statements; and
 - Considering whether the financial statements are undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed.
- The responses of those charged with governance to previous communications with the auditor.
- The documents comprising the other information (as defined in ISA (NZ) 720 (Revised)) and the planned manner and timing of the issuance of such documents. When the auditor expects to obtain other information after the date of the auditor's report, the discussions with those charged with governance may also include the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.

¹³ ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 18 and paragraph 31

ISA (NZ) 260 (REVISED)

- A15. While communication with those charged with governance may assist the auditor to plan the scope and timing of the audit, it does not change the auditor's sole responsibility to establish the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.
- A16. Care is necessary when communicating with those charged with governance about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity. For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable.

Significant Findings from the Audit (Ref: Para. 16)

- A17. The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the audit evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.
- A18. When ISA (NZ) 701 applies, the communications with those charged with governance required by paragraph 16, as well as the communication about the significant risks identified by the auditor required by paragraph 15, are particularly relevant to the auditor's determination of matters that required significant auditor attention and which therefore may be key audit matters.¹⁴

Significant Qualitative Aspects of Accounting Practices (Ref: Para. 16(a))

- A19. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgements about accounting policies and financial statement disclosures, for example, in relation to the use of assumptions in the development of accounting estimates. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to "critical accounting estimates" or "critical accounting policies and practices" to identify and provide additional information to users about the most difficult, subjective or complex judgements made by management in preparing the financial statements.
- A20. As a result, the auditor's views on the subjective aspects of the financial statements may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A19, those charged with governance may be interested in the auditor's views on the degree to which complexity, subjectivity or other inherent risk factors affect the selection or application of the methods, assumptions and data used in making a significant accounting estimate, as well as the auditor's evaluation of whether management's point estimate and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework. Open and constructive communication about significant qualitative aspects of the entity's accounting practices also may include comment on the acceptability of significant accounting practices and on the quality of the disclosures. When applicable, this may include whether a

¹⁴ ISA (NZ) 701, paragraphs 9–10

ISA (NZ) 260 (REVISED)

significant accounting practice of the entity relating to accounting estimates is considered by the auditor not to be the most appropriate to the particular circumstances of the entity, for example, when an alternative acceptable method for making an accounting estimate would, in the auditor's judgement, be more appropriate. Appendix 2 identifies matters that may be included in this communication.

Significant Difficulties Encountered during the Audit (Ref: Para. 16(b))

A21. Significant difficulties encountered during the audit may include such matters as:

- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the auditor to perform the auditor's procedures.
- An unreasonably brief time within which to complete the audit.
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.
- Restrictions imposed on the auditor by management.
- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested¹⁵.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.¹⁶

Significant Matters Discussed, or Subject to Correspondence with Management (Ref: Para. 16(c)(i))

A22. Significant matters discussed, or subject to correspondence with management may include such matters as:

- Significant events or transactions that occurred during the year.
- Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement.
- Concerns about management's consultations with other accountants on accounting or auditing matters.
- Discussions or correspondence in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services.
- Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information.

Circumstances that Affect the Form and Content of the Auditor's Report (Ref: Para 16(d))

¹⁵ See ISA 570 (NZ), *Going eConcern, paragraph 42-(e)*

¹⁶ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

ISA (NZ) 260 (REVISED)

A23. [Amended by the NZAuASB.]

NZA23.1 ISA (NZ) 210 requires the auditor to agree the terms of the audit engagement with those charged with governance.¹⁷ The agreed terms of the audit engagement are required to be recorded in an audit engagement letter or other suitable form of written agreement and include, among other things, reference to the expected form and content of the auditor's report.¹⁸ As explained in paragraph A9, if the terms of engagement are not agreed with those charged with governance, the auditor may provide those charged with governance with a copy of the engagement letter to communicate about matters relevant to the audit. The communication required by paragraph 16(d) is intended to inform those charged with governance about circumstances in which the auditor's report may differ from its expected form and content or may include additional information about the audit that was performed.

A24. Circumstances in which the auditor is required or may otherwise consider it necessary to include additional information in the auditor's report in accordance with the ISAs (NZ), and for which communication with those charged with governance is required, include when, for example:

- The auditor expects to modify the opinion in the auditor's report in accordance with ISA (NZ) 705 (Revised).¹⁹
- A material uncertainty related to going concern is reported in accordance with ISA (NZ) 570-~~(Revised)~~.²⁰
- Key audit matters are communicated in accordance with ISA (NZ) 701.²¹
- The auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matters paragraph in accordance with ISA (NZ) 706 (Revised)²² or is required to do so by other ISAs (NZ).
- The auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with ISA (NZ) 720 (Revised)²³.

In such circumstances, the auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate a discussion of how such matters will be addressed in the auditor's report.

A25. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report in accordance with ISA (NZ) 700 (Revised), the auditor is required to discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat.²⁴ The auditor also may communicate with those charged with governance in

¹⁷ ISA (NZ) 210, paragraph 9

¹⁸ ISA (NZ) 210, paragraph 10

¹⁹ ISA (NZ) 705 (Revised), paragraph 30

²⁰ ISA (NZ) 570-~~(Revised)~~, ~~Going Concern~~, paragraph ~~42(f)~~ ~~25(d)~~

²¹ ISA (NZ) 701, paragraph 17

²² ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 12

²³ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 18(a)

²⁴ ISA (NZ) 700 (Revised), paragraphs 46 and A634

ISA (NZ) 260 (REVISED)

circumstances when the auditor elects not to include the description of the auditor's responsibilities in the body of the auditor's report as permitted by ISA (NZ) 700 (Revised).²⁵

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(e))

- A26. ISA (NZ) 300²⁶ notes that, as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. The auditor may communicate with those charged with governance about such matters, for example, as an update to initial discussions about the planned scope and timing of the audit.
- A27. Other significant matters arising during the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of the other information that have been corrected.
- A28. To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality reviewer.

Auditor Independence (Ref: Para. ~~17-19~~~~16A-17~~)

- A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements²⁷ and to communicate with those charged with governance about the requirements the auditor applies. Relevant ethical requirements may:
- Establish independence requirements that are specific to audits of financial statements of certain entities, specified in the relevant ethical requirements, such as the independence requirements for audits of financial statements of public interest entities in Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand). If applicable in the circumstances of the audit engagement, this ISA (NZ) requires that the auditor also communicates with those charged with governance that the auditor applies such independence requirements.
 - Require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities specified in the relevant ethical requirements.²⁸ ISA (NZ) 700 (Revised) addresses the

²⁵ ISA (NZ) 700 (Revised), paragraph 41

²⁶ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph A16

²⁷ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

²⁸ See, for example, the public disclosure requirements in Professional and Ethical Standard 1, paragraphs R400.25-R400.26.

ISA (NZ) 260 (REVISED)

requirements for the auditor's report relating to the auditor's independence and the relevant ethical requirements the auditor applied.²⁹

- Require or encourage the auditor to determine whether it is appropriate to apply independence requirements that are specific to audits of financial statements of certain entities to audits of financial statements of other entities not specified in the relevant ethical requirements.³⁰ If this is the case and the auditor is required to publicly disclose when the auditor applied such independence requirements, the auditor may discuss with management or those charged with governance whether there is a risk of misunderstanding the nature of the entity and any need for additional disclosure.

A30. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance for matters that may reasonably be thought to bear on independence. For example, Professional and Ethical Standard 1 ~~International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)~~ requires the auditor to communicate with those charged with governance information regarding fees³¹, including fees for sustainability assurance engagements, and the provision of non-assurance services for audit clients that are public interest entities³².

A31. The communication about relationships and other matters, and how threats to independence that are not at an acceptable level have been addressed varies with the circumstances of the engagement and generally addresses the threats to independence, safeguards to reduce the threats, and measures to eliminate the circumstances that created the threats.

A32. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, Professional and Ethical Standard 1 ~~International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)~~ requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.³³

A33. [Amended by the NZAuASB].

NZA3~~32~~.1 The communication requirements relating to auditor independence that apply in the case of FMC reporting entities considered to have a higher level of public accountability may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include entities such as public sector entities or charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the

²⁹ ISA (NZ) 700 (Revised), paragraph 28(c)

³⁰ See, for example, encouragement in the application material in PES 1, paragraph 400.24 A1.

³¹ See, for example, paragraphs R410.23–R410.28 of Professional and Ethical Standard 1

³² See, for example, paragraphs R600.21–R600.23 of Professional and Ethical Standard 1

³³ See, for example, paragraphs R400.80–R400.82 and R400.84 of Professional and Ethical Standard 1

ISA (NZ) 260 (REVISED)

entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

Supplementary Matters (Ref: Para. 3)

- A34. The oversight of management by those charged with governance includes ensuring that the entity designs, implements and maintains appropriate system of internal control with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.
- A35. The auditor may become aware of supplementary matters that do not necessarily relate to the oversight of the financial reporting process but which are, nevertheless, likely to be significant to the responsibilities of those charged with governance in overseeing the strategic direction of the entity or the entity's obligations related to accountability. Such matters may include, for example, significant issues regarding governance structures or processes, and significant decisions or actions by senior management that lack appropriate authorisation.
- A36. In determining whether to communicate supplementary matters with those charged with governance, the auditor may discuss matters of this kind of which the auditor has become aware with the appropriate level of management, unless it is inappropriate to do so in the circumstances.
- A37. If a supplementary matter is communicated, it may be appropriate for the auditor to make those charged with governance aware that:
- (a) Identification and communication of such matters is incidental to the purpose of the audit, which is to form an opinion on the financial statements;
 - (b) No procedures were carried out with respect to the matter other than any that were necessary to form an opinion on the financial statements; and
 - (c) No procedures were carried out to determine whether other such matters exist.

The Communication Process

Establishing the Communication Process (Ref: Para. ~~2018~~)

- A38. Clear communication of the auditor's responsibilities, the planned scope and timing of the audit, and the expected general content of communications helps establish the basis for effective two-way communication.
- A39. Matters that may also contribute to effective two-way communication include discussion of:
- The purpose of communications. When the purpose is clear, the auditor and those charged with governance are better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
 - The form in which communications will be made.
 - The person(s) in the engagement team and among those charged with governance who will communicate regarding particular matters.

ISA (NZ) 260 (REVISED)

- The auditor's expectation that communication will be two-way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit, for example, strategic decisions that may significantly affect the nature, timing and extent of audit procedures, the suspicion or the detection of fraud, and concerns with the integrity or competence of senior management.
- The process for taking action and reporting back on matters communicated by the auditor.
- The process for taking action and reporting back on matters communicated by those charged with governance.

A40. The communication process will vary with the circumstances, including the size and governance structure of the entity, how those charged with governance operate, and the auditor's view of the significance of matters to be communicated. Difficulty in establishing effective two-way communication may indicate that the communication between the auditor and those charged with governance is not adequate for the purpose of the audit (see paragraph A52).

Considerations Specific to Smaller Entities

A41. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of listed or larger entities.

Communication with Management

A42. Many matters may be discussed with management in the ordinary course of an audit, including matters required by this ISA (NZ) to be communicated with those charged with governance. Such discussions recognise management's executive responsibility for the conduct of the entity's operations and, in particular, management's responsibility for the preparation of the financial statements.

A43. Before communicating matters with those charged with governance, the auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management's competence or integrity with management. In addition to recognising management's executive responsibility, these initial discussions may clarify facts and issues, and give management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with the internal auditor before communicating with those charged with governance.

Communication with Third Parties

A44. Those charged with governance may be required by law or regulation, or may wish, to provide third parties, for example, bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance:

ISA (NZ) 260 (REVISED)

- (a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties;
- (b) That no responsibility is assumed by the auditor to third parties; and
- (c) Any restrictions on disclosure or distribution to third parties.

A45. In some jurisdictions the auditor may be required by law or regulation to, for example:

- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some countries the auditor has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action³⁴;
- Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies, or other bodies such as a central authority in the case of some public sector entities; or
- Make reports prepared for those charged with governance publicly available.

A46. Unless required by law or regulation to provide a third party with a copy of the auditor's written communications with those charged with governance, the auditor may need the prior consent of those charged with governance before doing so.

Forms of Communication (Ref: Para. 2149)

A47. Effective communication may involve structured presentations and written reports as well as less structured communications, including discussions. The auditor may communicate matters other than those identified in paragraphs 19–20 either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.

A48. In addition to the significance of a particular matter, the form of communication (e.g., whether to communicate orally or in writing, the extent of detail or summarisation in the communication, and whether to communicate in a structured or unstructured manner) may be affected by such factors as:

- Whether a discussion of the matter will be included in the auditor's report. For example, when key audit matters are communicated in the auditor's report, the auditor may consider it necessary to communicate in writing about the matters determined to be key audit matters.
- Whether the matter has been satisfactorily resolved.
- Whether management has previously communicated the matter.
- The size, operating structure, control environment, and legal structure of the entity.
- In the case of an audit of special purpose financial statements, whether the auditor also audits the entity's general purpose financial statements.
- Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law.

³⁴ In New Zealand material misstatements are communicated through the audit report.

ISA (NZ) 260 (REVISED)

- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with those charged with governance.
- Whether there have been significant changes in the membership of a governing body.

A49. When a significant matter is discussed with an individual member of those charged with governance, for example, the chair of an audit committee, it may be appropriate for the auditor to summarise the matter in later communications so that all of those charged with governance have full and balanced information.

Timing of Communications (Ref: Para. 234)

A50. Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by those charged with governance. For example:

- Communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, may be made as part of agreeing the terms of the engagement.
- It may be appropriate to communicate a significant difficulty encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion. Similarly, the auditor may communicate orally to those charged with governance as soon as practicable significant deficiencies in the entity's system of internal control that the auditor has identified, prior to communicating these in writing as required by ISA (NZ) 265.³⁵
- When ISA (NZ) 701 applies, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit (see paragraph A13), and the auditor also may have more frequent communications to further discuss such matters when communicating about significant audit findings.
- Communications regarding independence may be appropriate whenever significant judgements are made about threats to independence and how threats to independence that are not at an acceptable level will be addressed, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion.
- Communications regarding findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices, may also be made as part of the concluding discussion.
- When auditing both general purpose and special purpose financial statements, it may be appropriate to coordinate the timing of communications.

A51. Other factors that may be relevant to the timing of communications include:

³⁵ ISA (NZ) 265, paragraphs 9 and A14

ISA (NZ) 260 (REVISED)

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The time at which the auditor identifies certain matters, for example, the auditor may not identify a particular matter (e.g., noncompliance with a law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.

Adequacy of the Communication Process (Ref: Para. 242)

A52. The auditor need not design specific procedures to support the evaluation of the two-way communication between the auditor and those charged with governance; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:

- The appropriateness and timeliness of actions taken by those charged with governance in response to matters raised by the auditor. Where significant matters raised in previous communications have not been dealt with effectively, it may be appropriate for the auditor to enquire as to why appropriate action has not been taken, and to consider raising the point again. This avoids the risk of giving an impression that the auditor is satisfied that the matter has been adequately addressed or is no longer significant.
- The apparent openness of those charged with governance in their communications with the auditor.
- The willingness and capacity of those charged with governance to meet with the auditor without management present.
- The apparent ability of those charged with governance to fully comprehend matters raised by the auditor, for example, the extent to which those charged with governance probe issues, and question recommendations made to them.
- Difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications.
- Where all or some of those charged with governance are involved in managing the entity, their apparent awareness of how matters discussed with the auditor affect their broader governance responsibilities, as well as their management responsibilities.
- Whether the two-way communication between the auditor and those charged with governance meets applicable legal and regulatory requirements.

A53. As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, ISA (NZ) 315 (Revised 2019) identifies participation by those charged with governance, including their interaction with internal audit, if any, and external auditors, as an element of the entity's control environment.³⁶

³⁶ ISA (NZ) 315 (Revised 2019), Appendix 3

ISA (NZ) 260 (REVISED)

Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the risks of material misstatements. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements.

A54. If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as:

- Modifying the auditor's opinion on the basis of a scope limitation.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (e.g., shareholders in a general meeting), or the responsible government minister or parliament in the public sector.
- Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

Documentation (Ref: Para. 253)

A55. Documentation of oral communication may include a copy of minutes prepared by the entity retained as part of the audit documentation where those minutes are an appropriate record of the communication.

ISA (NZ) 260 (REVISED)

Appendix 1

(Ref: Para. 3)

Specific Requirements in Professional and Ethical Standard 3 and Other ISAs (NZ) that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in Professional and Ethical Standard 3³⁷ and other ISAs (NZ) that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* – paragraph 34(e)
- ISA (NZ) 240 ~~(Revised)~~, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs ~~21, 38(e)(i)~~25, 32(c), 55(a), 59(c)(i) and ~~41-43~~64-66
- ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 15, 20 and 23–25
- ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs ~~12-13~~13-14
- ISA (NZ) 505, *External Confirmations* – paragraph 9
- ISA (NZ) 510, *Initial Audit Engagements—Opening Balances* – paragraph 7
- ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 36
- ISA (NZ) 550, *Related Parties* – paragraph 27
- ISA (NZ) 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- ISA (NZ) 570 ~~(Revised)~~, *Going Concern* – paragraphs ~~41-42~~25
- ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 57
- ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46
- ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30

³⁷ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

ISA (NZ) 260 (REVISED)

- ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12
- ISA (NZ) 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* – paragraphs 17-19

ISA (NZ) 260 (REVISED)

Appendix 2

(Ref: Para. 16(a), A19–A20)

Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a), and discussed in paragraphs A19–A20, may include such matters as:

Accounting Policies

- The appropriateness of the accounting policies to the particular circumstances of the entity, having regard to the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements. Where acceptable alternative accounting policies exist, the communication may include identification of the financial statement items that are affected by the choice of significant accounting policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements. The communication may include: the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements.
- The effect of significant accounting policies in controversial or emerging areas (or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus).
- The effect of the timing of transactions in relation to the period in which they are recorded.

Accounting Estimates and Related Disclosures

- Appendix 2 of ISA (NZ) 540 (Revised) includes matters that the auditor may consider communicating with respect to significant qualitative aspects of the entity's accounting practices related to accounting estimates and related disclosures.

Financial Statement Disclosures

- The issues involved, and related judgements made, in formulating particularly sensitive financial statement disclosures (e.g., disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency and clarity of the disclosures in the financial statements.

Related Matters

- The potential effect on the financial statements of significant risks, exposures and uncertainties, such as pending litigation, that are disclosed in the financial statements.
- The extent to which the financial statements are affected by significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. This communication may highlight:
 - The non-recurring amounts recognised during the period.

ISA (NZ) 260 (REVISED)

- The extent to which such transactions are separately disclosed in the financial statements.
- Whether such transactions appear to have been designed to achieve a particular accounting or tax treatment, or a particular legal or regulatory objective.
- Whether the form of such transactions appears overly complex or where extensive advice regarding the structuring of the transaction has been taken.
- Where management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
- The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets. The communication may explain how factors affecting carrying values were selected and how alternative selections would have affected the financial statements.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

ISA (NZ) 260 (REVISED)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

~~This conformity statement accompanies but is not part of ISA (NZ) 260 (Revised).~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 260 (Revised) *Communication with Those Charged with Governance*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand. References to ~~listed entities~~ publicly traded entities have been broadened to refer to FMC reporting entities considered to have a higher level of public accountability in New Zealand. ~~These paragraphs have been labelled as NZ paragraphs.~~

Compliance with this ISA (NZ) enables compliance with ISA 260 (Revised).

Comparison with Australian Auditing Standards

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 260 *Communication with Those Charged with Governance*. ASA 260 conforms to ISA 260 (Revised).

The following requirements are additional to ISA 260 (Revised) and ISA (NZ) 260 (Revised):

- In the case of entities audited in accordance with the Corporations Act 2001, the auditor shall communicate with those charged with governance a statement that the engagement team and others in the firm as appropriate, the firm, and, when applicable network firms, have complied with the independence requirements of section 307C of the Corporations Act 2001. (Ref: Para. Aus 17.1)

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 260 (Revised)</u> <u>Communication with Those Charged with Governance</u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12 (b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 265

Communicating Deficiencies in Internal Control to Those Charged with Governance and Management ~~(ISA (NZ) 265)~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.~~

~~This compilation was prepared in June 2021 and incorporates amendments up to and including June 2020.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 265 issued by the External Reporting Board in July 2011.~~

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-07-4

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 265 issued by the External Reporting Board in July 2011 (as amended to February 2020).

The revision of ISA (NZ) 265 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 265

**COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH
GOVERNANCE AND MANAGEMENT***Issued by the External Reporting Board***CONTENTS**

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1-3
Effective Date	4
Objective	5
Definitions	6
Requirements	7-11
Application and Other Explanatory Material	
Determination of Whether Deficiencies in Internal Control Have Been Identified	A1-A4
Significant Deficiencies in Internal Control	A5-A11
Communication of Deficiencies in Internal Control	A12-A30
~~Accompanying Attachment: Conformity to the International Standards on Auditing~~	

International Standard on Auditing (New Zealand) (ISA (NZ)) 265, ***“Communicating Deficiencies in Internal Control to those Charged with Governance and Management”*** should be read in conjunction with ISA (NZ) 200, ***“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand).”***

History of Amendments

Table of pronouncements – ISA (NZ) 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

This table lists the pronouncements establishing and amending ISA (NZ) 265.

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 265	<u>October 2025</u> <u>July 2011</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section.</u> <u>This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.</u>
<u>ISA (NZ) 610 (Revised 2013)</u> <u>Using the Work of Internal Auditors</u>	<u>April 2013</u>	<u>Effective for audits of financial statements for periods ending on or after 15 December 2013</u>
<u>Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update)</u>	<u>Feb 2014</u>	<u>Effective for assurance engagements relating to financial statements for periods beginning on or after 1 April 2014.</u>
<u>Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting)</u>	<u>September 2015</u>	<u>Effective for audits of financial statements for periods ending on or after 15 December 2016.</u>
<u>Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)</u>	<u>February 2020</u>	<u>Effective for audits of financial statements for periods beginning on or after 15 December 2021</u>

Table of Amended Paragraphs in ISA (NZ) 265		
Paragraph affected	How affected	By...[date]
<u>1, A24</u>	<u>Amended</u>	<u>ISA (NZ) 610 (Revised 2013) [April 2013]</u>
<u>A9, A13</u>	<u>Amended</u>	<u>Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update) [Feb 2014]</u>

ISA (NZ) 265

Table of Amended Paragraphs in ISA (NZ) 265		
A9, A13	Amended	Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting) [Sept 2015]
1, 2, A3, A8 Footnotes 1, 4 & 5	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to communicate appropriately to those charged with governance and management deficiencies in internal control² that the auditor has identified in an audit of financial statements. This ISA (NZ) does not impose additional responsibilities on the auditor regarding obtaining an understanding of the entity's system of internal control and designing and performing tests of controls over and above the requirements of ISA (NZ) 315 (Revised 2019) and ISA (NZ) 330.³ ISA (NZ) 260 (Revised)⁴ establishes further requirements and provides guidance regarding the auditor's responsibility to communicate with those charged with governance in relation to the audit.
2. The auditor is required to obtain an understanding of the entity's system of internal control when identifying and assessing the risks of material misstatement.⁵ In making those risk assessments, the auditor considers the entity's system of internal control in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The auditor may identify control deficiencies in internal control not only during this risk assessment process but also at any other stage of the audit. This ISA (NZ) specifies which identified deficiencies the auditor is required to communicate to those charged with governance and management.
3. Nothing in this ISA (NZ) precludes the auditor from communicating to those charged with governance and management other internal control matters that the auditor has identified during the audit.

Effective Date

4. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ 4.1 This Standard repeals ISA (NZ) 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* issued in July 2011.

Objective

5. The objective of the auditor is to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified during the audit and that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions.

² ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement* paragraphs 4, 12 and 21.

³ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*.

⁴ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*.

⁵ ISA (NZ) 315 (Revised 2019), paragraph 21.

Definitions

6. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Deficiency in internal control – This exists when:
 - (i) A control is designed, implemented or operated in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements on a timely basis; or
 - (ii) A control necessary to prevent, or detect and correct, misstatements in the financial statements on a timely basis is missing.
 - (b) Significant deficiency in internal control – A deficiency or combination of deficiencies in internal control that, in the auditor's professional judgement, is of sufficient importance to merit the attention of those charged with governance. (Ref: Para. A5)

Requirements

7. The auditor shall determine whether, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control. (Ref: Para. A1-A4)
8. If the auditor has identified one or more deficiencies in internal control, the auditor shall determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies. (Ref: Para. A5-A11)
9. The auditor shall communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis. (Ref: Para. A12-A18, A27)
10. The auditor shall also communicate to management at an appropriate level of responsibility on a timely basis: (Ref: Para. A19, A27)
 - (a) In writing, significant deficiencies in internal control that the auditor has communicated or intends to communicate to those charged with governance, unless it would be inappropriate to communicate directly to management in the circumstances; and (Ref: Para. A14, A20-A21)
 - (b) Other deficiencies in internal control identified during the audit that have not been communicated to management by other parties and that, in the auditor's professional judgement, are of sufficient importance to merit management's attention. (Ref: Para. A22-A26)
11. The auditor shall include in the written communication of significant deficiencies in internal control:
 - (a) A description of the deficiencies and an explanation of their potential effects; and (Ref: Para. A28)
 - (b) Sufficient information to enable those charged with governance and management to understand the context of the communication. In particular, the auditor shall explain that: (Ref: Para. A29-A30)
 - (i) The purpose of the audit was for the auditor to express an opinion on the financial statements;

- (ii) The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control; and
- (iii) The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance.

Application and Other Explanatory Material

Determination of Whether Deficiencies in Internal Control Have Been Identified (Ref: Para. 7)

- A1. In determining whether the auditor has identified one or more deficiencies in internal control, the auditor may discuss the relevant facts and circumstances of the auditor's findings with the appropriate level of management. This discussion provides an opportunity for the auditor to alert management on a timely basis to the existence of deficiencies of which management may not have been previously aware. The level of management with whom it is appropriate to discuss the findings is one that is familiar with the internal control area concerned and that has the authority to take remedial action on any identified deficiencies in internal control. In some circumstances, it may not be appropriate for the auditor to discuss the auditor's findings directly with management, for example, if the findings appear to call management's integrity or competence into question (see paragraph A20).
- A2. In discussing the facts and circumstances of the auditor's findings with management, the auditor may obtain other relevant information for further consideration, such as:
 - Management's understanding of the actual or suspected causes of the deficiencies.
 - Exceptions arising from the deficiencies that management may have noted, for example, misstatements that were not prevented by the relevant information technology (IT) controls.
 - A preliminary indication from management of its response to the findings.

Considerations Specific to Smaller Entities

- A3. While the concepts underlying controls in the control activities component in smaller entities are likely to be similar to those in larger entities, the formality with which they operate will vary. Further, smaller entities may find that certain types of controls are not necessary because of controls applied by management. For example, management's sole authority for granting credit to customers and approving significant purchases can provide effective control over important account balances and transactions, lessening or removing the need for more detailed controls.
- A4. Also, smaller entities often have fewer employees which may limit the extent to which segregation of duties is practicable. However, in a small owner-managed entity, the

owner-manager may be able to exercise more effective oversight than in a larger entity. This higher level of management oversight needs to be balanced against the greater potential for management override of controls.

Significant Deficiencies in Internal Control (Ref: Para. 6(b), 8)

- A5. The significance of a deficiency or a combination of deficiencies in internal control depends not only on whether a misstatement has actually occurred, but also on the likelihood that a misstatement could occur and the potential magnitude of the misstatement. Significant deficiencies may therefore exist even though the auditor has not identified misstatements during the audit.
- A6. Examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency include:
- The likelihood of the deficiencies leading to material misstatements in the financial statements in the future.
 - The susceptibility to loss or fraud of the related asset or liability.
 - The subjectivity and complexity of determining estimated amounts, such as fair value accounting estimates.
 - The financial statement amounts exposed to the deficiencies.
 - The volume of activity that has occurred or could occur in the account balance or class of transactions exposed to the deficiency or deficiencies.
 - The importance of the controls to the financial reporting process; for example:
 - General monitoring controls (such as oversight of management).
 - Controls over the prevention [and/or](#) detection of fraud.
 - Controls over the selection and application of significant accounting policies.
 - Controls over significant transactions with related parties.
 - Controls over significant transactions outside the entity's normal course of business.
 - Controls over the period-end financial reporting process (such as controls over non-recurring journal entries).
 - The cause and frequency of the exceptions detected as a result of the deficiencies in the controls.
 - The interaction of the deficiency with other deficiencies in internal control.
- A7. Indicators of significant deficiencies in internal control include, for example:
- Evidence of ineffective aspects of the control environment, such as:
 - Indications that significant transactions in which management is financially interested are not being appropriately scrutinised by those charged with governance.

ISA (NZ) 265

- Identification of management fraud, whether or not material, that was not prevented by the entity's internal control.
- Management's failure to implement appropriate remedial action on significant deficiencies previously communicated.
- Absence of a risk assessment process within the entity where such a process would ordinarily be expected to have been established.
- Evidence of an ineffective entity risk assessment process, such as management's failure to identify a risk of material misstatement that the auditor would expect the entity's risk assessment process to have identified.
- Evidence of an ineffective response to identified significant risks (for example, absence of controls over such a risk).
- Misstatements detected by the auditor's procedures that were not prevented, or detected and corrected, by the entity's internal control.
- Restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud.
- Evidence of management's inability to oversee the preparation of the financial statements.

A8. Controls may be designed to operate individually or in combination to effectively prevent, or detect and correct, misstatements.⁶ For example, controls over accounts receivable may consist of both automated and manual controls designed to operate together to prevent, or detect and correct, misstatements in the account balance. A deficiency in internal control on its own may not be sufficiently important to constitute a significant deficiency. However, a combination of deficiencies affecting the same account balance or disclosure, assertion, or component of the entity's system of internal control may increase the risks of misstatement to such an extent as to give rise to a significant deficiency.

A9. [Amended by the NZAuASB]

NZA9.1 Law or regulation in some jurisdictions may establish a requirement (particularly for audits of FMC reporting entities considered to have a higher level of public accountability) for the auditor to communicate to those charged with governance or to other relevant parties (such as regulators) one or more specific types of deficiency in internal control that the auditor has identified during the audit. Where law or regulation has established specific terms and definitions for these types of deficiency and requires the auditor to use these terms and definitions for the purpose of the communication, the auditor uses such terms and definitions when communicating in accordance with the legal or regulatory requirement.

A10. Where the jurisdiction has established specific terms for the types of deficiency in internal control to be communicated but has not defined such terms, it may be necessary for the auditor to use judgement to determine the matters to be communicated further to the legal or regulatory requirement. In doing so, the auditor may consider it appropriate to have regard to the requirements and guidance in this ISA (NZ). For example, if the purpose of the legal or regulatory requirement is to bring to the attention

⁶ ISA (NZ) 315 (Revised 2019), paragraph A175.

of those charged with governance certain internal control matters of which they should be aware, it may be appropriate to regard such matters as being generally equivalent to the significant deficiencies required by this ISA (NZ) to be communicated to those charged with governance.

- A11. The requirements of this ISA (NZ) remain applicable notwithstanding that law or regulation may require the auditor to use specific terms or definitions.

Communication of Deficiencies in Internal Control

Communication of Significant Deficiencies in Internal Control to Those Charged with Governance (Ref: Para. 9)

- A12. Communicating significant deficiencies in writing to those charged with governance reflects the importance of these matters, and assists those charged with governance in fulfilling their oversight responsibilities. ISA (NZ) 260 (Revised) establishes relevant considerations regarding communication with those charged with governance when all of them are involved in managing the entity.⁷

A13 [Amended by the NZAuASB]

NZA13.1 In determining when to issue the written communication, the auditor may consider whether receipt of such communication would be an important factor in enabling those charged with governance to discharge their oversight responsibilities. In addition, for FMC reporting entities considered to have a higher level of public accountability, those charged with governance may need to receive the auditor's written communication before the date of approval of the financial statements in order to discharge specific responsibilities in relation to internal control for regulatory or other purposes. For other entities, the auditor may issue the written communication at a later date. Nevertheless, in the latter case, as the auditor's written communication of significant deficiencies forms part of the final audit file, the written communication is subject to the overriding requirement⁸ for the auditor to complete the assembly of the final audit file on a timely basis. ISA (NZ) 230 states that an appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.⁹

- A14. Regardless of the timing of the written communication of significant deficiencies, the auditor may communicate these orally in the first instance to management and, when appropriate, to those charged with governance to assist them in taking timely remedial action to minimise the risks of material misstatement. Doing so, however, does not relieve the auditor of the responsibility to communicate the significant deficiencies in writing, as this ISA (NZ) requires.

- A15. The level of detail at which to communicate significant deficiencies is a matter of the auditor's professional judgement in the circumstances. Factors that the auditor may consider in determining an appropriate level of detail for the communication include, for example:

⁷ ISA (NZ) 260 (Revised), paragraph 13.

⁸ ISA (NZ) 230, *Audit Documentation*, paragraph 14.

⁹ ISA (NZ) 230, paragraph A21.

- The nature of the entity. For instance, the communication required for a public interest entity may be different from that for an entity other than a ~~non~~-public interest entity.
- The size and complexity of the entity. For instance, the communication required for a complex entity may be different from that for an entity operating a simple business.
- The nature of significant deficiencies that the auditor has identified.
- The entity's governance composition. For instance, more detail may be needed if those charged with governance include members who do not have significant experience in the entity's industry or in the affected areas.
- Legal or regulatory requirements regarding the communication of specific types of deficiency in internal control.

A16. Management and those charged with governance may already be aware of significant deficiencies that the auditor has identified during the audit and may have chosen not to remedy them because of cost or other considerations. The responsibility for evaluating the costs and benefits of implementing remedial action rests with management and those charged with governance. Accordingly, the requirement in paragraph 9 applies regardless of cost or other considerations that management and those charged with governance may consider relevant in determining whether to remedy such deficiencies.

A17. The fact that the auditor communicated a significant deficiency to those charged with governance and management in a previous audit does not eliminate the need for the auditor to repeat the communication if remedial action has not yet been taken. If a previously communicated significant deficiency remains, the current year's communication may repeat the description from the previous communication, or simply reference the previous communication. The auditor may ask management or, where appropriate, those charged with governance, why the significant deficiency has not yet been remedied. A failure to act, in the absence of a rational explanation, may in itself represent a significant deficiency.

Considerations Specific to Smaller Entities

A18. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of larger entities.

Communication of Deficiencies in Internal Control to Management (Ref: Para. 10)

A19. Ordinarily, the appropriate level of management is the one that has responsibility and authority to evaluate the deficiencies in internal control and to take the necessary remedial action. For significant deficiencies, the appropriate level is likely to be the chief executive officer or chief financial officer (or equivalent) as these matters are also required to be communicated to those charged with governance. For other deficiencies in internal control, the appropriate level may be operational management with more direct involvement in the control areas affected and with the authority to take appropriate remedial action.

Communication of Significant Deficiencies in Internal Control to Management (Ref: Para. 10(a))

- A20. Certain identified significant deficiencies in internal control may call into question the integrity or competence of management. For example, there may be evidence of fraud or intentional non-compliance with laws and regulations by management or management may exhibit an inability to oversee the preparation of adequate financial statements that may raise doubt about management's competence. Accordingly, it may not be appropriate to communicate such deficiencies directly to management.
- A21. ISA (NZ) 250 (Revised) establishes requirements and provides guidance on the reporting of identified or suspected non-compliance with laws and regulations, including when those charged with governance are themselves involved in such non-compliance.¹⁰ ISA (NZ) 240 establishes requirements and provides guidance regarding communication to those charged with governance when the auditor has identified fraud or suspected fraud involving management.¹¹

Communication of Other Deficiencies in Internal Control to Management (Ref: Para. 10(b))

- A22. During the audit, the auditor may identify other deficiencies in internal control that are not significant deficiencies but that may be of sufficient importance to merit management's attention. The determination as to which other deficiencies in internal control merit management's attention is a matter of professional judgement in the circumstances, taking into account the likelihood and potential magnitude of misstatements that may arise in the financial statements as a result of those deficiencies.
- A23. The communication of other deficiencies in internal control that merit management's attention need not be in writing but may be oral. Where the auditor has discussed the facts and circumstances of the auditor's findings with management, the auditor may consider an oral communication of the other deficiencies to have been made to management at the time of these discussions. Accordingly, a formal communication need not be made subsequently.
- A24. If the auditor has communicated deficiencies in internal control other than significant deficiencies to management in a prior period and management has chosen not to remedy them for cost or other reasons, the auditor need not repeat the communication in the current period. The auditor is also not required to repeat information about such deficiencies if it has been previously communicated to management by other parties, such as the internal audit function or regulators. It may, however, be appropriate for the auditor to re-communicate these other deficiencies if there has been a change of management, or if new information has come to the auditor's attention that alters the prior understanding of the auditor and management regarding the deficiencies. Nevertheless, the failure of management to remedy other deficiencies in internal control that were previously communicated may become a significant deficiency requiring communication with those charged with governance. Whether this is the case depends on the auditor's judgement in the circumstances.

¹⁰ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraphs 22-28.

¹¹ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 44-65.

ISA (NZ) 265

A25. In some circumstances, those charged with governance may wish to be made aware of the details of other deficiencies in internal control the auditor has communicated to management, or be briefly informed of the nature of the other deficiencies. Alternatively, the auditor may consider it appropriate to inform those charged with governance of the communication of the other deficiencies to management. In either case, the auditor may report orally or in writing to those charged with governance as appropriate.

A26. ISA (NZ) 260 establishes relevant considerations regarding communication with those charged with governance when all of them are involved in managing the entity.¹²

Considerations Specific to Public Sector Entities (Ref: Para. 9-10)

A27. Public sector auditors may have additional responsibilities to communicate deficiencies in internal control that the auditor has identified during the audit, in ways, at a level of detail and to parties not envisaged in this ISA (NZ). For example, significant deficiencies may have to be communicated to the legislature or other governing body. Law, regulation or other authority may also mandate that public sector auditors report deficiencies in internal control, irrespective of the significance of the potential effects of those deficiencies. Further, legislation may require public sector auditors to report on broader internal control-related matters than the deficiencies in internal control required to be communicated by this ISA (NZ), for example, controls related to compliance with legislative authorities, regulations, or provisions of contracts or grant agreements.

Content of Written Communication of Significant Deficiencies in Internal Control (Ref: Para. 11)

A28. In explaining the potential effects of the significant deficiencies, the auditor need not quantify those effects. The significant deficiencies may be grouped together for reporting purposes where it is appropriate to do so. The auditor may also include in the written communication suggestions for remedial action on the deficiencies, management's actual or proposed responses, and a statement as to whether or not the auditor has undertaken any steps to verify whether management's responses have been implemented.

A29. The auditor may consider it appropriate to include the following information as additional context for the communication:

- An indication that if the auditor had performed more extensive procedures on internal control, the auditor might have identified more deficiencies to be reported, or concluded that some of the reported deficiencies need not, in fact, have been reported.
- An indication that such communication has been provided for the purposes of those charged with governance, and that it may not be suitable for other purposes.

A30. Law or regulation may require the auditor or management to furnish a copy of the auditor's written communication on significant deficiencies to appropriate regulatory authorities. Where this is the case, the auditor's written communication may identify such regulatory authorities.

¹² ISA (NZ) 260 (Revised), paragraph 13.

ISA (NZ) 265

ISA (NZ) 265

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

~~This conformity statement accompanies but is not part of ISA (NZ) 265.~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA (NZ) 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand. References to ~~listed entities~~ publicly traded entities have been broadened to refer to FMC reporting entities considered to have a higher level of public accountability in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 265.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

ASA 265 conforms to ISA 265.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 265 <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 300

Planning an Audit of Financial Statements ~~(ISA (NZ) 300)~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including June 2022~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 300 issued by the External Reporting Board in July 2011.~~

7

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-08-1

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 300 *Planning an Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 300 issued by the External Reporting Board in July 2011 (as amended to June 2022).

The revision of ISA (NZ) 300 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 300

PLANNING AN AUDIT OF FINANCIAL STATEMENTS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1-2
Effective Date	3
Objective	4
Requirements	
Involvement of Key Engagement Team Members	5
Preliminary Engagement Activities	6
Planning Activities.....	7-10
Documentation.....	11
Additional Considerations in Initial Audit Engagements	12
Application and Other Explanatory Material	
Scope of this ISA (NZ)	A1
The Role and Timing of Planning.....	A2-A4
Involvement of Key Engagement Team Members	A5
Preliminary Engagement Activities	A6-A7
Planning Activities.....	A8-A17
Documentation.....	A18-A22
Additional Considerations in Initial Audit Engagements	A23
Appendix: Considerations in Establishing the Overall Audit Strategy	

~~Accompanying Attachment: Conformity to the International Standards on Auditing~~

International Standard on Auditing (New Zealand) (ISA (NZ)) 300, “*Planning the Audit of Financial Statements*” should be read in conjunction with ISA (NZ) 200, “*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.”³⁹

History of Amendments

Table of pronouncements – ISA (NZ) 300 *Planning an Audit of Financial Statements*

This table lists the pronouncements establishing and amending ISA (NZ) 300.

Pronouncements	Date approved	~~Effective date~~ <u>Application</u>
International Standard on Auditing (New Zealand) 300	~~July 2011~~ <u>October 2025</u>	~~This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September 2011. Periods beginning on or after 15 December 2026, refer commencement and application section~~
~~International Standard on Assurance Engagements (New Zealand) 3410 <i>Assurance Engagements on Greenhouse Gas Statements</i>~~	~~December 2012~~	~~31 March 2013.~~
~~Professional and Ethical Standard 1 (Revised) <i>Code of Ethics for Assurance Practitioners</i>~~	~~Jan 2013~~	~~1 January 2014.~~
~~International Standard on Auditing (New Zealand) 610 (Revised 2013) <i>Using the Work of Internal Auditors</i>~~	~~April 2013~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2013.~~
~~Use of management and those charged with governance~~	~~December 2013~~	~~Effective for audits of financial statements for periods beginning on or after 1 July 2014.~~
~~Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures~~	~~September 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1~~	~~June 2020~~	~~Effective on 15 July 2020.~~
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021.~~

ISA (NZ) 300

Pronouncements	Date approved	~~Effective date~~ <u>Application</u>
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~	~~July 2021~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)~~	~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~

ISA (NZ) 300

Table of Amended Paragraphs in ISA (NZ) 300		
Paragraph affected	How affected	By...[date]
Various	Terminology changed	ISAE (NZ) 3410 [Dec 2012]
Footnote 8	Amended	Professional and Ethical Standard 1 (Revised) [Jan 2013]
9, Appendix	Amended	ISA (NZ) 610 (Revised 2013)
Various	Amended	Use of management and those charged with governance [Dec 2013]
Appendix A13, A14	Amended Inserted	Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures [Sept 2015]
Footnote 8	Amended	Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]
9, A21 Footnotes 4, 9 and 12	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)
Various	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Pronouncements Arising from the Quality Management Projects [July 2021]
10A, A8, Appendix, Footnote 2	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to plan an audit of financial statements. This ISA (NZ) is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.
2. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. Quality management at the engagement level in accordance with ISA (NZ) 220 (Revised)², in conjunction with adequate planning in accordance with this ISA (NZ) benefits the audit of financial statements in several ways, including the following: (Ref: Para. A1-A4)
 - Helping the auditor to devote appropriate attention to important areas of the audit.
 - Helping the auditor identify and resolve potential problems on a timely basis.
 - Helping the auditor properly organise and manage the audit engagement so that it is performed in an effective and efficient manner.
 - Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.
 - Facilitating the direction and supervision of engagement team members and the review of their work.
 - Assisting, where applicable, in coordination of work done by auditors of components and experts.

Effective Date

3. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September 2011. [Note: For effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments.] [Replaced by the NZAuASB. Refer to paragraph 0.1 – 0.2.]~~

NZ 3.1 This Standard repeals ISA (NZ) 300 *Planning an Audit of Financial Statements* issued in July 2011.

Objective

4. The objective of the auditor is to plan the audit so that it will be performed in an effective manner.

² ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*

Requirements

Involvement of Key Engagement Team Members

5. The engagement partner and other key members of the engagement team shall be involved in planning the audit, including planning and participating in the discussion among engagement team members. (Ref: Para. A5)

Preliminary Engagement Activities

6. The auditor shall undertake the following activities at the beginning of the current audit engagement:
 - (a) Performing procedures required by ISA (NZ) 220 (Revised) regarding the acceptance and continuance of the client relationship and audit engagement;³
 - (b) Evaluating compliance with relevant ethical requirements, including those related to independence, in accordance with ISA (NZ) 220 (Revised);⁴ and
 - (c) Establishing an understanding of the terms of the engagement, as required by ISA (NZ) 210.⁵ (Ref: Para. A6-A7)

Planning Activities

7. The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan.
8. In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of ISA (NZ) 220 (Revised) and:
 - (a) Identify the characteristics of the engagement that define its scope;
 - (b) Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
 - (c) Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts;
 - (d) Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
 - (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement.⁶ (Ref: Para. A8-A12)
9. The auditor shall develop an audit plan that shall include a description of:
 - (a) The nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. (Ref: Para A13).
 - (b) The nature, timing and extent of planned risk assessment procedures, as determined under ISA (NZ) 315 (Revised 2019).⁷

³ ISA (NZ) 220 (Revised), paragraphs 22-24

⁴ ISA (NZ) 220 (Revised), paragraphs 16-21

⁵ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraphs 9-13.

⁶ ISA (NZ) 220 (Revised), paragraph 25

⁷ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatements*.

ISA (NZ) 300

- (c) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA (NZ) 330.⁸
 - (d) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs (NZ). (Ref: Para. A14-A16)
10. The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: Para. A17)
- 10A. The engagement partner shall review the overall audit strategy and audit plan.

Documentation

11. The auditor shall include in the audit documentation:⁹
- (a) The overall audit strategy;
 - (b) The audit plan; and
 - (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, including significant changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work,¹⁰ and the reasons for such changes. (Ref: Para. A18-A22)

Additional Considerations in Initial Audit Engagements

12. The auditor shall undertake the following activities prior to starting an initial audit:
- (a) Performing procedures required by ISA (NZ) 220 (Revised) regarding the acceptance of client relationships and audit engagements;¹¹ and
 - (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with Professional and Ethical Standard 1¹². (Ref: Para. A23)

Application and Other Explanatory Material**Scope of this ISA (NZ) (Ref: Para. 2)**

- A1. ISA (NZ) 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Information obtained from complying with the requirements of ISA (NZ) 220 (Revised) is relevant to this ISA (NZ). For example, in accordance with ISA (NZ) 220 (Revised), the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, taking into account the nature and circumstances of the audit engagement. Such a determination

⁸ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*.

⁹ ISA (NZ) 230, *Audit Documentation*, paragraphs 8-11, and paragraph A6.

¹⁰ ISA (NZ) 220 (Revised), paragraphs 30 and A91-92

¹¹ ISA (NZ) 220 (Revised), paragraphs 22-24

¹² Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand)

is directly relevant when ascertaining the nature, timing and extent of resources necessary to perform the engagement in the overall strategy, as required by paragraph 8 of this ISA (NZ).

The Role and Timing of Planning (Ref: Para. 2)

- A2. The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. In planning the audit, the auditor may use project management techniques and tools. ISA (NZ) 220 (Revised)¹³ describes how such techniques and tools may support the engagement team in managing the quality of the engagement.
- A3. Planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. Planning, however, includes consideration of the timing of certain activities and audit procedures that need to be completed prior to the performance of further audit procedures. For example, planning includes the need to consider, prior to the auditor's identification and assessment of the risks of material misstatement, such matters as:
- The analytical procedures to be applied as risk assessment procedures.
 - Obtaining a general understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework.
 - The determination of materiality.
 - The involvement of experts.
 - The performance of other risk assessment procedures.
- A4. The auditor may decide to discuss elements of planning with the entity's management to help the auditor manage and achieve quality at the engagement level (for example, to coordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.

Involvement of Key Engagement Team Members (Ref: Para. 5)

- A5. The involvement of the engagement partner and other key members of the engagement team in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process¹⁴.

¹³ ISA (NZ) 220 (Revised), paragraphs ~~A73~~A74-A7574

¹⁴ ISA (NZ) 315 (Revised 2019), paragraphs ~~17~~ and 18, establishes requirements and provides guidance on the engagement team's discussion of the susceptibility of the entity's financial statements to material misstatements. ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph ~~46~~29 provides guidance on the emphasis given during this discussion to the susceptibility of the entity's financial statements to material misstatement due to fraud.

Preliminary Engagement Activities (Ref: Para. 6)

- A6. Performing the preliminary engagement activities specified in paragraph 6 at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability manage and achieve quality at the engagement level in accordance with ISA (NZ) 220 (Revised).
- A7. Performing these preliminary engagement activities enables the auditor to plan an audit engagement in order to, for example:
- Maintain the necessary independence and ability to perform the engagement.
 - Determine that there are no issues with management integrity that may affect the auditor's willingness to continue the engagement.
 - Determine that there is no misunderstanding with the client as to the terms of the engagement.

Performing initial procedures on both client continuance and evaluation of ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.

Planning Activities*The Overall Audit Strategy (Ref: Para. 7-8)*

- A8. The process of establishing the overall audit strategy, subject to the completion of the auditor's risk assessment procedures, may include such matters as:
- The nature of resources (human, technological or intellectual) to be deployed for specific audit areas. For example, the deployment of experienced team members for high risk areas or the assignment of experts to address complex matters;
 - The amount of resources to be allocated to specific audit areas. For example, the number of team members assigned to attend the physical inventory count at multiple locations, the nature and extent of direction and supervision of component auditors and the review of their work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
 - When these resources are to be deployed, such as whether at an interim audit stage or at key cut-off dates; and
 - How such resources are directed, supervised or used. For example, when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site).
- A9. ISA (NZ) 220 (Revised) contains requirements and guidance on engagement resources and engagement performance (including direction and supervision of the members of the engagement team and the review of their work).
- A10. The Appendix lists examples of considerations in establishing the overall audit strategy.
- A11. Once the overall audit strategy has been established, an audit plan can be developed to address the various matters identified in the overall audit strategy, taking into account

the need to achieve the audit objectives through the efficient use of the auditor's resources. The establishment of the overall audit strategy and the detailed audit plan are not necessarily discrete or sequential processes, but are closely inter-related since changes in one may result in consequential changes to the other.

Considerations Specific to Smaller Entities

- A12. In audits of small entities, the entire audit may be conducted by a very small audit team. Many audits of small entities involve the engagement partner (who may be a sole practitioner) working with one engagement team member (or without any engagement team members). With a smaller team, co-ordination of, and communication between, team members are easier. Establishing the overall audit strategy for the audit of a small entity need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the audit, and the size of the engagement team. For example, a brief memorandum prepared at the completion of the previous audit, based on a review of the working papers and highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented audit strategy for the current audit engagement if it covers the matters noted in paragraph 8.

Direction, Supervision and Review (Ref: Para. 9(a))

- A13. ISA (NZ) 220 (Revised) deals with the engagement partner's responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of their work.¹⁵

The Audit Plan (Ref: Para. 9(d))

- A14. The audit plan is more detailed than the overall audit strategy in that it includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.
- A15. Determining the nature, timing and extent of planned risk assessment procedures, and the further audit procedures, as they relate to disclosures is important in light of both the wide range of information and the level of detail that may be encompassed in those disclosures. Further, certain disclosures may contain information that is obtained from outside of the general and subsidiary ledgers, which may also affect the assessed risks and the nature, timing and extent of audit procedures to address them.
- A16. Consideration of disclosures early in the audit assists the auditor in giving appropriate attention to, and planning adequate time for, addressing disclosures in the same way as classes of transactions, events and account balances. Early consideration may also help the auditor to determine the effects on the audit of:
- Significant new or revised disclosures required as a result of changes in the entity's environment, financial condition or activities (for example a change in the

¹⁵ ISA (NZ) 220 (Revised), paragraphs 29-31

required identification of segments and reporting of segment information arising from a significant business combination);

- Significant new or revised disclosures arising from changes in the applicable financial reporting framework;
- The need for the involvement of an auditor's expert to assist with audit procedures related to particular disclosures (for example, disclosures related to pension or other retirement benefit obligations); and
- Matters relating to disclosures that the auditor may wish to discuss with those charged with governance.¹⁶

Changes to Planning Decisions During the Course of the Audit (Ref: Para. 10)

A17. As a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. This may be the case when information comes to the auditor's attention that differs significantly from the information available when the auditor planned the audit procedures. For example, audit evidence obtained through the performance of substantive procedures may contradict the audit evidence obtained through tests of controls.

Documentation (Ref: Para. 11)

A18. The documentation of the overall audit strategy is a record of the key decisions in managing quality at the engagement level and a means to communicate significant matters to the engagement team. For example, the auditor may summarise the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

A19. The documentation of the audit plan is a record of the planned nature, timing and extent of risk assessment procedures and further audit procedures at the assertion level in response to the assessed risks. It also serves as a record of the proper planning of the audit procedures that can be reviewed and approved prior to their performance. The auditor may use standard audit programmes or audit completion checklists, tailored as needed to reflect the particular engagement circumstances.

A20. A record of the significant changes to the overall audit strategy and the audit plan, and resulting changes to the planned nature, timing and extent of audit procedures, explains why the significant changes were made, and the overall strategy and audit plan finally adopted for the audit. It also reflects the appropriate response to the significant changes occurring during the audit.

A21. Documentation of the direction and supervision of engagement team members and the review of their work in accordance with ISA (NZ) 220 (Revised) may also provide a record of significant changes to the planned nature, timing and extent of the direction, supervision and review.

¹⁶ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph A13.

Considerations Specific to Smaller Entities

A22. As discussed in paragraph A12, a suitable, brief memorandum may serve as the documented strategy for the audit of a smaller entity. For the audit plan, standard audit programmes or checklists (see paragraph A19) drawn up on the assumption of few controls¹⁷, as is likely to be the case in a smaller entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments.

Additional Considerations in Initial Audit Engagements (Ref: Para. 12)

A23. The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor's working papers.
- Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
- The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances.¹⁸
- Other designed and implemented by the firm for initial audit engagements (e.g., the firm's system of quality management may include responses that require another partner or individual with appropriate authority to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).

¹⁷ ISA (NZ) 315 (Revised 2019), paragraph 26(a).

¹⁸ ISA (NZ) 510, *Initial Audit Engagements – Opening Balances*.

Appendix

(Ref: Para. 7-8, and A8-A12)

Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in managing quality at the engagement level. Many of these matters will influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs (NZ), not all matters are relevant to every audit engagement and the list is not necessarily complete.

Characteristics of the Engagement

- The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework.
- Industry-specific reporting requirements such as reports mandated by industry regulators.
- The expected audit scope, including the components at which audit work is expected to be performed for purposes of a group audit, and the extent to which component auditors will be involved.
- The nature of the control relationships between a parent and its entities or business units that determine how the group is to be consolidated.
- The nature of the business segments to be audited, including the need for specialised knowledge.
- The reporting currency to be used, including any need for currency translation for the financial information audited.
- The requirement for an audit of financial statements for statutory, regulatory or other reasons, in addition to audit work performed for purposes of a group audit.
- Whether the entity has an internal audit function and if so, whether, in which areas and to what extent, the work of the function can be used for purposes of the audit.
- The entity's use of service organisations and how the auditor may obtain evidence concerning the design or operation of controls performed by them.
- The expected use of audit evidence obtained in previous audits, for example, audit evidence related to risk assessment procedures and tests of controls.
- The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques.
- The coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews.
- The availability of client personnel and data.

Reporting Objectives, Timing of the Audit, and Nature of Communications

- The entity's timetable for reporting, such as at interim and final stages.
- The organisation of meetings with management and those charged with governance to discuss the nature, timing and extent of the audit work.
- The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance.
- The discussion with management regarding the expected communications on the status of audit work throughout the engagement.
- Communication with component auditors regarding the expected types and timing of communications in connection with the audit work performed for the purposes of the group audit.
- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of audit work performed.
- Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

- The determination of materiality in accordance with ISA (NZ) 320¹ and where applicable:
 - The determination of component performance materiality and communication thereof to component auditors in accordance with ISA (NZ) 600 (Revised).²
 - The initial expectations about the classes of transactions, account balances and disclosures that may be significant.
- Preliminary identification of areas where there may be a higher risk of material misstatement.
- The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review.
- The manner in which the auditor emphasises to engagement team members the need to maintain a questioning mind and to exercise professional scepticism in gathering and evaluating audit evidence.
- Results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them.
- The discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity.

¹ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*.

² ISA (NZ) 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs 35–36.

ISA (NZ) 300

- Evidence of management's commitment to the design, implementation and maintenance of sound internal control, including evidence of appropriate documentation of such internal control.
- Changes within the applicable financial reporting framework, such as changes in accounting standards, which may involve significant new or revised disclosures.
- Volume of transactions, which may determine whether it is more efficient for the auditor to rely on internal control.
- Importance attached to internal control throughout the entity to the successful operation of the business.
- The process(es) management uses to identify and prepare the disclosures required by the applicable financial reporting framework, including disclosures containing information that is obtained from outside of the general and subsidiary ledgers.
- Significant business developments affecting the entity, including changes in information technology and business processes, changes in key management, and acquisitions, mergers and divestments.
- Significant industry developments such as changes in industry regulations and new reporting requirements.
- Other significant relevant developments, such as changes in the legal environment affecting the entity.

Nature, Timing and Extent of Resources

- The human, technological and intellectual resources assigned or made available to the engagement (e.g., assignment of the engagement team and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement).
- Engagement budgeting, including considering the appropriate amount of time to set aside for areas where there may be higher risks of material misstatement.

ISA (NZ) 300**ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING**

This conformity statement is not part of the standard.

~~This conformity statement accompanies but is not part of ISA (NZ) 300.~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing (ISA) 300 *Planning an Audit of Financial Statements*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 300.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 300 *Planning an Audit of a Financial Report*.

ASA 300 conforms to ISA 300.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 300 <i>Planning an Audit of Financial Statement</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 315 (Revised 2019)

Identifying and Assessing the Risks of Material Misstatement ~~(ISA (NZ) 315 (Revised 2019))~~

~~This Standard was issued on 23 April 2020 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 21 May 2020.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods beginning on or after 15 December 2021. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 315 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) (ISA (NZ)) 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including June 2022.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 315 (Revised 2019) issued by the External Reporting Board in April 2020.~~

ISA (NZ) 315 (Revised 2019)**COPYRIGHT**

© External Reporting Board (“XRB”) 2020

This XRB standard contains copyright material and reproduces, with permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (IAASB), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-0-947505-78-3

ISA (NZ) 315 (Revised 2019)**Explanatory note**

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 315 (Revised 2019) issued by the External Reporting Board in April 2020 (as amended to June 2022).

The revision of ISA (NZ) 315 (Revised 2019) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 315 (Revised 2019)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 315 (Revised 2019)

IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Commencement and Application	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1
Key Concepts in this ISA (NZ)	2
Scalability	9
Effective Date.....	10
Objective	11
Definitions	12
Requirements	
Risk Assessment Procedures and Related Activities	13–18
Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control ..	19–27
Identifying and Assessing the Risks of Material Misstatement	28–37
Documentation	38
Application and Other Explanatory Material	
Definitions	A1–A10
Risk Assessment Procedures and Related Activities	A11–A47
Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity’s System of Internal Control ..	A48–A183 ~~19~~
Identifying and Assessing the Risks of Material Misstatement	A184–A236
Documentation	A237–A241
Appendix 1: Considerations for Understanding the Entity and its Business Model	
Appendix 2: Understanding Inherent Risk Factors	
Appendix 3: Understanding the Entity’s System of Internal Control	
Appendix 4: Considerations for Understanding an Entity’s Internal Audit Function	

ISA (NZ) 315 (Revised 2019)

Appendix 5: Considerations for Understanding Information Technology (IT)

Appendix 6: Considerations for Understanding General IT Controls

~~Accompanying Attachment: Conformity to the International Standards on Auditing~~

International Standard on Auditing (New Zealand) (ISA (NZ)) 315 (Revised 2019), *“Identifying and Assessing the Risks of Material Misstatement”* should be read in conjunction with ISA (NZ) 200, *“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand).”*

ISA (NZ) 315 (Revised 2019)

History of Amendments

Table of pronouncements – ISA (NZ) 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement*

This table lists the pronouncements establishing and amending ISA (NZ) 315 (Revised 2019).

Pronouncements	Date approved	Effective date <u>Application</u>
International Standard on Auditing (New Zealand) 315 (Revised 2019)	~~December 2019~~ <u>October 2025</u>	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021. Periods beginning on or after 15 December 2026, refer commencement and application section.~~
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~	July 2021	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)~~	June 2022	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~

Table of Amended Paragraphs in ISA (NZ) 315 (Revised 2019)

Paragraph affected	How affected	By...[date]
A38, A69, Footnote 56	Amended	~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]~~
A11, A45, A218, Footnote 18 and 57	Amended	~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]~~

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 315 (Revised 2019)

Introduction**Scope of this ISA (NZ)**

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements.

Key Concepts in this ISA (NZ)

2. ISA (NZ) 200 deals with the overall objectives of the auditor in conducting an audit of the financial statements,² including to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.³ Audit risk is a function of the risks of material misstatement and detection risk.⁴ ISA (NZ) 200 explains that the risks of material misstatement may exist at two levels:⁵ the overall financial statement level; and the assertion level for classes of transactions, account balances and disclosures.
3. ISA (NZ) 200 requires the auditor to exercise professional judgement in planning and performing an audit, and to plan and perform an audit with professional scepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.⁶
4. Risks at the financial statement level relate pervasively to the financial statements as a whole and potentially affect many assertions. Risks of material misstatement at the assertion level consist of two components, inherent and control risk:
 - Inherent risk is described as the susceptibility of an assertion about a class of transaction, account balance or disclosure to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - Control risk is described as the risk that a misstatement that could occur in an assertion about a class of transaction, account balance or disclosure and that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's system of internal control.
5. ISA (NZ) 200 explains that risks of material misstatement are assessed at the assertion level in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence.⁷ For the identified risks of material misstatement at the assertion level, a separate assessment of inherent risk and control risk is required by this ISA (NZ). As explained in ISA (NZ) 200, inherent risk is

² ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*

³ ISA (NZ) 200, paragraph 197

⁴ ISA (NZ) 200, paragraph 153(c)

⁵ ISA (NZ) 200, paragraph A36A42

⁶ ISA (NZ) 200, paragraphs 165–176

⁷ ISA (NZ) 200, paragraph A43a–A51 and ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, paragraph 6

ISA (NZ) 315 (Revised 2019)

higher for some assertions and related classes of transactions, account balances and disclosures than for others. The degree to which inherent risk varies is referred to in this ISA (NZ) as the ‘spectrum of inherent risk.’

6. Risks of material misstatement identified and assessed by the auditor include both those due to error and those due to fraud. Although both are addressed by this ISA (NZ), the significance of fraud is such that further requirements and guidance are included in ISA (NZ) 240⁸ in relation to risk assessment procedures and related activities to obtain information that is used to identify, assess and respond to the risks of material misstatement due to fraud.
7. The auditor’s risk identification and assessment process is iterative and dynamic. The auditor’s understanding of the entity and its environment, the applicable financial reporting framework, and the entity’s system of internal control are interdependent with concepts within the requirements to identify and assess the risks of material misstatement. In obtaining the understanding required by this ISA (NZ), initial expectations of risks may be developed, which may be further refined as the auditor progresses through the risk identification and assessment process. In addition, this ISA (NZ) and ISA (NZ) 330 require the auditor to revise the risk assessments, and modify further overall responses and further audit procedures, based on audit evidence obtained from performing further audit procedures in accordance with ISA (NZ) 330, or if new information is obtained.
8. ISA (NZ) 330 requires the auditor to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level.⁹ ISA (NZ) 330 further explains that the auditor’s assessment of the risks of material misstatement at the financial statement level, and the auditor’s overall responses, is affected by the auditor’s understanding of the control environment. ISA (NZ) 330 also requires the auditor to 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.¹⁰

Scalability

9. ISA (NZ) 200 states that some ISAs (NZ) include scalability considerations which illustrate the application of the requirements to all entities regardless of whether their nature and circumstances are less complex or more complex.¹¹ This ISA (NZ) is intended for audits of all entities, regardless of size or complexity and the application material therefore incorporates specific considerations specific to both less and more complex entities, where appropriate. While the size of an entity may be an indicator of its complexity, some smaller entities may be complex and some larger entities may be less complex.

Effective Date

10. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 15 December 2021. [Note: For the effective dates of paragraphs changed or added~~

⁸ ISA (NZ) 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁹ ISA (NZ) 330, paragraph 5

¹⁰ ISA (NZ) 330, paragraph 6

¹¹ ISA (NZ) 200, paragraph ~~A65a~~ A74

ISA (NZ) 315 (Revised 2019)

~~by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1 -0.2.]~~

NZ 10.1 This Standard repeals ISA (NZ) 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement* issued in April 2020.

Objective

11. The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

Definitions

12. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) *Assertions* – Representations, explicit or otherwise, with respect to the recognition, measurement, presentation and disclosure of information in the financial statements which are inherent in management representing that the financial statements are prepared in accordance with the applicable financial reporting framework. Assertions are used by the auditor to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement. (Ref: Para. A1)
 - (b) *Business risk* – A risk resulting from significant conditions, events, circumstances, actions or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies.
 - (c) *Controls* – Policies or procedures that an entity establishes to achieve the control objectives of management or those charged with governance. In this context: (Ref: Para. A2–A5)
 - (i) Policies are statements of what should, or should not, be done within the entity to effect control. Such statements may be documented, explicitly stated in communications, or implied through actions and decisions.
 - (ii) Procedures are actions to implement policies.
 - (d) *General information technology (IT) controls* – Controls over the entity's IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls and the integrity of information (i.e., the completeness, accuracy and validity of information) in the entity's information system. Also see the definition of IT environment.
 - (e) *Information processing controls* – Controls relating to the processing of information in IT applications or manual information processes in the entity's information system that directly address risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information). (Ref: Para. A6)

ISA (NZ) 315 (Revised 2019)

- (f) *Inherent risk factors* – Characteristics of events or conditions that affect susceptibility to misstatement, whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosure, before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors¹² insofar as they affect inherent risk. (Ref: Para. A7–A8)
- (g) *IT environment* – The IT applications and supporting IT infrastructure, as well as the IT processes and personnel involved in those processes, that an entity uses to support business operations and achieve business strategies. For the purposes of this ISA (NZ):
 - (i) An IT application is a program or a set of programs that is used in the initiation, processing, recording and reporting of transactions or information. IT applications include data warehouses and report writers.
 - (ii) The IT infrastructure comprises the network, operating systems, and databases and their related hardware and software.
 - (iii) The IT processes are the entity's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations.
- (h) *Relevant assertions* – An assertion about a class of transactions, account balance or disclosure is relevant when it has an identified risk of material misstatement. The determination of whether an assertion is a relevant assertion is made before consideration of any related controls (i.e., the inherent risk). (Ref: Para. A9)
- (i) *Risks arising from the use of IT* – Susceptibility of information processing controls to ineffective design or operation, or risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information) in the entity's information system, due to ineffective design or operation of controls in the entity's IT processes (see IT environment).
- (j) *Risk assessment procedures* – The audit procedures designed and performed to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels.
- (k) *Significant class of transactions, account balance or disclosure* – A class of transactions, account balance or disclosure for which there is one or more relevant assertions.
- (l) *Significant risk* – An identified risk of material misstatement: (Ref: Para. A10)
 - (i) For which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur; or

¹² ISA (NZ) 240, paragraphs ~~A24–A27~~A24–A26

ISA (NZ) 315 (Revised 2019)

- (ii) That is to be treated as a significant risk in accordance with the requirements of other ISAs (NZ).¹³
- (m) *System of internal control* – The system designed, implemented and maintained by those charged with governance, management and other personnel, to provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. For the purposes of the ISAs (NZ), the system of internal control consists of five inter-related components:
 - (i) Control environment;
 - (ii) The entity’s risk assessment process;
 - (iii) The entity’s process to monitor the system of internal control;
 - (iv) The information system and communication; and
 - (v) Control activities.

Requirements**Risk Assessment Procedures and Related Activities**

13. The auditor shall design and perform risk assessment procedures to obtain audit evidence that provides an appropriate basis for: (Ref: Para. A11–A18)
 - (a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and
 - (b) The design of further audit procedures in accordance with ISA (NZ) 330.

The auditor shall design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A14)
14. The risk assessment procedures shall include the following: (Ref: Para. A19–A21)
 - (a) Enquiries of management and of other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists). (Ref: Para. A22–A26)
 - (b) Analytical procedures. (Ref: Para. A27–A31)
 - (c) Observation and inspection. (Ref: Para. A32–A36)

Information from Other Sources

15. In obtaining audit evidence in accordance with paragraph 13, the auditor shall consider information from: (Ref: Para. A37–A38)
 - (a) The auditor’s procedures regarding acceptance or continuance of the client relationship or the audit engagement; and

¹³ ISA (NZ) 240, paragraph [2739\(b\)](#) and ISA (NZ) 550, *Related Parties*, paragraph 18

ISA (NZ) 315 (Revised 2019)

- (b) When applicable, other engagements performed by the engagement partner for the entity.
- 16. When the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall evaluate whether such information remains relevant and reliable as audit evidence for the current audit. (Ref: Para. A39–A41)

Engagement Team Discussion

- 17. The engagement partner and other key engagement team members shall discuss the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement. (Ref: Para. A42–A47)
- 18. When there are engagement team members not involved in the engagement team discussion, the engagement partner shall determine which matters are to be communicated to those members.

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control (Ref: Para. A48–A49)*Understanding the Entity and Its Environment, and the Applicable Financial Reporting Framework (Ref: Para. A50–A55)*

- 19. The auditor shall perform risk assessment procedures to obtain an understanding of:
 - (a) The following aspects of the entity and its environment:
 - (i) The entity's organisational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT; (Ref: Para. A56–A67)
 - (ii) Industry, regulatory and other external factors; (Ref: Para. A68–A73) and
 - (iii) The measures used, internally and externally, to assess the entity's financial performance; (Ref: Para. A74–A81)
 - (b) The applicable financial reporting framework, and the entity's accounting policies and the reasons for any changes thereto; (Ref: Para. A82–A84) and
 - (c) How inherent risk factors affect susceptibility of assertions to misstatement and the degree to which they do so, in the preparation of the financial statements in accordance with the applicable financial reporting framework, based on the understanding obtained in (a) and (b). (Ref: Para. A85–A89)
- 20. The auditor shall evaluate whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework.

ISA (NZ) 315 (Revised 2019)*Understanding the Components of the Entity's System of Internal Control* (Ref: Para. A90 – A95)

Control Environment, the Entity's Risk Assessment Process and the Entity's Process to Monitor the System of Internal Control (Ref: Para. A96–A98)

Control environment

21. The auditor shall obtain an understanding of the control environment relevant to the preparation of the financial statements, through performing risk assessment procedures, by: (Ref: Para. A99–A100)	
(a) Understanding the set of controls, processes and structures that address: (Ref: Para. A101–A102) (i) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values; (ii) When those charged with governance are separate from management, the independence of, and oversight over the entity's system of internal control by, those charged with governance; (iii) The entity's assignment of authority and responsibility; (iv) How the entity attracts, develops, and retains competent individuals; and (v) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control;	and (b) Evaluating whether: (Ref: Para. A103–A108) (i) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour; (ii) The control environment provides an appropriate foundation for the other components of the entity's system of internal control considering the nature and complexity of the entity; and (iii) Control deficiencies identified in the control environment undermine the other components of the entity's system of internal control.

The entity's risk assessment process

22. The auditor shall obtain an understanding of the entity's risk assessment process relevant to the preparation of the financial statements, through performing risk assessment procedures, by:	
(a) Understanding the entity's process for: (Ref: Para. A109–A110) (i) Identifying business risks relevant to financial reporting objectives; (Ref: Para. A62) (ii) Assessing the significance of those risks, including the likelihood of their occurrence; and (iii) Addressing those risks;	and (b) Evaluating whether the entity's risk assessment process is appropriate to the entity's circumstances considering the nature and complexity of the entity. (Ref: Para. A111–A113)

ISA (NZ) 315 (Revised 2019)

23. If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall:
- (a) Determine whether any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process and, if so, obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement; and
 - (b) Consider the implications for the auditor's evaluation in paragraph 22(b).

The entity's process to monitor the system of internal control

24. The auditor shall obtain an understanding of the entity's process for monitoring the system of internal control relevant to the preparation of the financial statements, through performing risk assessment procedures, by: (Ref: Para. A114–A115)	
(a) Understanding those aspects of the entity's process that address: (i) Ongoing and separate evaluations for monitoring the effectiveness of controls, and the identification and remediation of control deficiencies identified; (Ref: Para. A116–A117) and (ii) The entity's internal audit function, if any, including its nature, responsibilities and activities; (Ref: Para. A118) (b) Understanding the sources of the information used in the entity's process to monitor the system of internal control, and the basis upon which management considers the information to be sufficiently reliable for the purpose; (Ref: Para. A119–A120)	and (c) Evaluating whether the entity's process for monitoring the system of internal control is appropriate to the entity's circumstances considering the nature and complexity of the entity. (Ref: Para. A121–A122)

Information System and Communication, and Control Activities (Ref: Para. A123–A130)**The information system and communication**

25. The auditor shall obtain an understanding of the entity's information system and communication relevant to the preparation of the financial statements, through performing risk assessment procedures, by: (Ref: Para. A131)	
(a) Understanding the entity's information processing activities, including its data and information, the resources to be used in such activities and the policies that define, for significant classes of transactions, account balances and disclosures: (Ref: Para. A132–A143)	and (c) Evaluating whether the entity's information system and communication appropriately support the preparation of the entity's financial statements in accordance with the applicable

ISA (NZ) 315 (Revised 2019)

(i) How information flows through the entity's information system, including how: a. Transactions are initiated, and how information about them is recorded, processed, corrected as necessary, incorporated in the general ledger and reported in the financial statements; and b. Information about events and conditions, other than transactions, is captured, processed and disclosed in the financial statements; (ii) The accounting records, specific accounts in the financial statements and other supporting records relating to the flows of information in the information system; (iii) The financial reporting process used to prepare the entity's financial statements, including disclosures; and (iv) The entity's resources, including the IT environment, relevant to (a)(i) to (a)(iii) above; (b) Understanding how the entity communicates significant matters that support the preparation of the financial statements and related reporting responsibilities in the information system and other components of the system of internal control: (Ref: Para. A144–A145) (i) Between people within the entity, including how financial reporting roles and responsibilities are communicated; (ii) Between management and those charged with governance; and (iii) With external parties, such as those with regulatory authorities;	financial reporting framework. (Ref: Para. A146)

Control activities

26. The auditor shall obtain an understanding of the control activities component, through performing risk assessment procedures, by: (Ref: Para. A147–A157)	and (d) For each control identified in (a) or (c)(ii): (Ref: Para. A175–A181) (i) Evaluating whether the control is designed effectively to address the
(a) Identifying controls that address risks of material misstatement at the assertion level in the control activities component as follows: (i) Controls that address a risk that is determined to be a significant risk; (Ref: Para. A158–A159) (ii) Controls over journal entries, including non-standard journal entries used to record non-	

ISA (NZ) 315 (Revised 2019)

recurring, unusual transactions or adjustments; (Ref: Para. A160–A161) (iii) Controls for which the auditor plans to test operating effectiveness in determining the nature, timing and extent of substantive testing, which shall include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence; and (Ref: Para. A162–A164) (iv) Other controls that the auditor considers are appropriate to enable the auditor to meet the objectives of paragraph 13 with respect to risks at the assertion level, based on the auditor's professional judgement; (Ref: Para. A165) (b) Based on controls identified in (a), identifying the IT applications and the other aspects of the entity's IT environment that are subject to risks arising from the use of IT; (Ref: Para. A166–A172) (c) For such IT applications and other aspects of the IT environment identified in (b), identifying: (Ref: Para. A173–A174) (i) The related risks arising from the use of IT; and (ii) The entity's general IT controls that address such risks;	risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls; and (ii) Determining whether the control has been implemented by performing procedures in addition to enquiry of the entity's personnel.

Control Deficiencies Within the Entity's System of Internal Control

27. Based on the auditor's evaluation of each of the components of the entity's system of internal control, the auditor shall determine whether one or more control deficiencies have been identified. (Ref: Para. A182–A183)

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. A184–A185)*Identifying Risks of Material Misstatement*

28. The auditor shall identify the risks of material misstatement and determine whether they exist at: (Ref: Para. A186–A192)
- (a) The financial statement level; (Ref: Para. A193–A200) or
 - (b) The assertion level for classes of transactions, account balances and disclosures. (Ref: Para. A201)
29. The auditor shall determine the relevant assertions and the related significant classes of transactions, account balances and disclosures. (Ref: Para. A202–A204)

ISA (NZ) 315 (Revised 2019)*Assessing Risks of Material Misstatement at the Financial Statement Level*

30. For identified risks of material misstatement at the financial statement level, the auditor shall assess the risks and: (Ref: Para. A193–A200)
- (a) Determine whether such risks affect the assessment of risks at the assertion level; and
 - (b) Evaluate the nature and extent of their pervasive effect on the financial statements.

*Assessing Risks of Material Misstatement at the Assertion Level**Assessing Inherent Risk (Ref: Para. A205–A217)*

31. For identified risks of material misstatement at the assertion level, the auditor shall assess inherent risk by assessing the likelihood and magnitude of misstatement. In doing so, the auditor shall take into account how, and the degree to which:
- (a) Inherent risk factors affect the susceptibility of relevant assertions to misstatement; and
 - (b) The risks of material misstatement at the financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level. (Ref: Para. A215–A216)
32. The auditor shall determine whether any of the assessed risks of material misstatement are significant risks. (Ref: Para. A218–A221)
33. The auditor shall determine whether substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material misstatement at the assertion level. (Ref: Para. A222–A225)

Assessing Control Risk

34. If the auditor plans to test the operating effectiveness of controls, the auditor shall assess control risk. If the auditor does not plan to test the operating effectiveness of controls, the auditor's assessment of control risk shall be such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk. (Ref: Para. A226–A229)

Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures

35. The auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement, whether due to fraud or error. If not, the auditor shall perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence obtained from the risk assessment procedures, whether corroborative or contradictory to assertions made by management. (Ref: Para. A230–A232)

Classes of Transactions, Account Balances and Disclosures that Are Not Significant, but Which Are Material

36. For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the

ISA (NZ) 315 (Revised 2019)

auditor shall evaluate whether the auditor's determination remains appropriate. (Ref: Para. A233–A235)

Revision of Risk Assessment

37. If the auditor obtains new information which is inconsistent with the audit evidence on which the auditor originally based the identification or assessments of the risks of material misstatement, the auditor shall revise the identification or assessment. (Ref: Para. A236)

Documentation

38. The auditor shall include in the audit documentation:¹⁴ (Ref: Para. A237–A241)
- (a) The discussion among the engagement team and the significant decisions reached;
 - (b) Key elements of the auditor's understanding in accordance with paragraphs 19, 21, 22, 24 and 25; the sources of information from which the auditor's understanding was obtained; and the risk assessment procedures performed;
 - (c) The evaluation of the design of identified controls, and determination whether such controls have been implemented, in accordance with the requirements in paragraph 26; and
 - (d) The identified and assessed risks of material misstatement at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgements made.

Application and Other Explanatory Material**Definitions** (Ref: Para. 12)*Assertions* (Ref: Para. 12(a))

- A1. Categories of assertions are used by auditors to consider the different types of potential misstatements that may occur when identifying, assessing and responding to the risks of material misstatement. Examples of these categories of assertions are described in paragraph A190. The assertions differ from the written representations required by ISA (NZ) 580,¹⁵ to confirm certain matters or support other audit evidence.

Controls (Ref: Para. 12(c))

- A2. Controls are embedded within the components of the entity's system of internal control.
- A3. Policies are implemented through the actions of personnel within the entity, or through the restraint of personnel from taking actions that would conflict with such policies.
- A4. Procedures may be mandated, through formal documentation or other communication by management or those charged with governance, or may result from behaviours that are not mandated but are rather conditioned by the entity's culture. Procedures may be

¹⁴ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11, and A6–A7

¹⁵ ISA (NZ) 580, *Written Representations*

ISA (NZ) 315 (Revised 2019)

enforced through the actions permitted by the IT applications used by the entity or other aspects of the entity's IT environment.

- A5. Controls may be direct or indirect. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.

Information Processing Controls (Ref: Para. 12(e))

- A6. Risks to the integrity of information arise from susceptibility to ineffective implementation of the entity's information policies, which are policies that define the information flows, records and reporting processes in the entity's information system. Information processing controls are procedures that support effective implementation of the entity's information policies. Information processing controls may be automated (i.e., embedded in IT applications) or manual (e.g., input or output controls) and may rely on other controls, including other information processing controls or general IT controls.

Inherent Risk Factors (Ref: Para. 12(f))

Appendix 2 sets out further considerations relating to understanding inherent risk factors.

- A7. Inherent risk factors may be qualitative or quantitative and affect the susceptibility of assertions to misstatement. Qualitative inherent risk factors relating to the preparation of information required by the applicable financial reporting framework include:
- Complexity;
 - Subjectivity;
 - Change;
 - Uncertainty; or
 - Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk.
- A8. Other inherent risk factors, that affect susceptibility to misstatement of an assertion about a class of transactions, account balance or disclosure may include:
- The quantitative or qualitative significance of the class of transactions, account balance or disclosure; or
 - The volume or a lack of uniformity in the composition of the items to be processed through the class of transactions or account balance, or to be reflected in the disclosure.

Relevant Assertions (Ref: Para. 12(h))

- A9. A risk of material misstatement may relate to more than one assertion, in which case all the assertions to which such a risk relates are relevant assertions. If an assertion does not have an identified risk of material misstatement, then it is not a relevant assertion.

ISA (NZ) 315 (Revised 2019)

Significant Risk (Ref: Para. 12(l))

- A10. Significance can be described as the relative importance of a matter, and is judged by the auditor in the context in which the matter is being considered. For inherent risk, significance may be considered in the context of how, and the degree to which, inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur.

Risk Assessment Procedures and Related Activities (Ref: Para. 13–18)

- A11. The risks of material misstatement to be identified and assessed include both those due to fraud and those due to error, and both are covered by this ISA (NZ). However, the significance of fraud is such that further requirements and guidance are included in ISA (NZ) 240 in relation to risk assessment procedures and related activities to obtain information that is used to identify and assess the risks of material misstatement due to fraud.¹⁶ In addition, the following ISAs (NZ) provide further requirements and guidance on identifying and assessing risks of material misstatement regarding specific matters or circumstances:

- ISA (NZ) 540 (Revised)¹⁷ in regard to accounting estimates;
- ISA (NZ) 550²² in regard to related party relationships and transactions;
- ISA (NZ) 570 (Revised)¹⁸ in regard to going concern; and
- ISA (NZ) 600 (Revised)¹⁹ in regard to group financial statements.

- A12. Professional scepticism is necessary for the critical assessment of audit evidence gathered when performing the risk assessment procedures, and assists the auditor in remaining alert to audit evidence that is not biased towards corroborating the existence of risks or that may be contradictory to the existence of risks. Professional scepticism is an attitude that is applied by the auditor when making professional judgements that then provides the basis for the auditor's actions. The auditor applies professional judgement in determining when the auditor has audit evidence that provides an appropriate basis for risk assessment.

- A13. The application of professional scepticism by the auditor may include:

- Questioning contradictory information and the reliability of documents;
- Considering responses to enquiries and other information obtained from management and those charged with governance;
- Being alert to conditions that may indicate possible misstatement due to fraud or error; and

¹⁶ ISA (NZ) 240, paragraphs ~~12–27~~26–41

¹⁷ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

¹⁸ ISA (NZ) 570 (Revised), *Going Concern*

¹⁹ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

ISA (NZ) 315 (Revised 2019)

- Considering whether audit evidence obtained supports the auditor's identification and assessment of the risks of material misstatement in light of the entity's nature and circumstances.

Why Obtaining Audit Evidence in an Unbiased Manner Is Important (Ref: Para. 13)

- A14. Designing and performing risk assessment procedures to obtain audit evidence to support the identification and assessment of the risks of material misstatement in an unbiased manner may assist the auditor in identifying potentially contradictory information, which may assist the auditor in exercising professional scepticism in identifying and assessing the risks of material misstatement.

Sources of Audit Evidence (Ref: Para. 13)

- A15. Designing and performing risk assessment procedures to obtain audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence. In addition to information from other sources²⁰, sources of information for risk assessment procedures may include:

- Interactions with management, those charged with governance, and other key entity personnel, such as internal auditors.
- Certain external parties such as regulators, whether obtained directly or indirectly.
- Publicly available information about the entity, for example entity-issued press releases, materials for analysts or investor group meetings, analysts' reports or information about trading activity.

Regardless of the source of information, the auditor considers the relevance and reliability of the information to be used as audit evidence in accordance with ISA (NZ) 500.²¹

Scalability (Ref: Para. 13)

- A16. The nature and extent of risk assessment procedures will vary based on the nature and circumstances of the entity (e.g., the formality of the entity's policies and procedures, and processes and systems). The auditor uses professional judgement to determine the nature and extent of the risk assessment procedures to be performed to meet the requirements of this ISA (NZ).
- A17. Although the extent to which an entity's policies and procedures, and processes and systems are formalized may vary, the auditor is still required to obtain the understanding in accordance with paragraphs 19, 21, 22, 24, 25 and 26.

Examples:

Some entities, including less complex entities, and particularly owner-managed entities, may not have established structured processes and systems (e.g., a risk assessment process or a process to monitor the system of internal control) or may have established processes or systems

²⁰ See paragraphs A37 and A38

²¹ ISA (NZ) 500, *Audit Evidence*, paragraph 7

ISA (NZ) 315 (Revised 2019)

with limited documentation or a lack of consistency in how they are undertaken. When such systems and processes lack formality, the auditor may still be able to perform risk assessment procedures through observation and enquiry.

Other entities, typically more complex entities, are expected to have more formalized and documented policies and procedures. The auditor may use such documentation in performing risk assessment procedures.

- A18. The nature and extent of risk assessment procedures to be performed the first time an engagement is undertaken may be more extensive than procedures for a recurring engagement. In subsequent periods, the auditor may focus on changes that have occurred since the preceding period.

Types of Risk Assessment Procedures (Ref: Para. 14)

- A19. ISA (NZ) 500²² explains the types of audit procedures that may be performed in obtaining audit evidence from risk assessment procedures and further audit procedures. The nature, timing and extent of the audit procedures may be affected by the fact that some of the accounting data and other evidence may only be available in electronic form or only at certain points in time.²³ The auditor may perform substantive procedures or tests of controls, in accordance with ISA (NZ) 330, concurrently with risk assessment procedures, when it is efficient to do so. Audit evidence obtained that supports the identification and assessment of risks of material misstatement may also support the detection of misstatements at the assertion level or the evaluation of the operating effectiveness of controls.
- A20. Although the auditor is required to perform all the risk assessment procedures described in paragraph 14 in the course of obtaining the required understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control (see paragraphs 19–26), the auditor is not required to perform all of them for each aspect of that understanding. Other procedures may be performed when the information to be obtained may be helpful in identifying risks of material misstatement. Examples of such procedures may include making enquiries of the entity's external legal counsel or external supervisors, or of valuation experts that the entity has used.

Automated Tools and Techniques (Ref: Para. 14)

- A21. Using automated tools and techniques, the auditor may perform risk assessment procedures on large volumes of data (from the general ledger, sub-ledgers or other operational data) including for analysis, recalculations, reperformance or reconciliations.

²² ISA (NZ) 500, paragraphs A14–A17 and A21–A25

²³ ISA (NZ) 500, paragraph A16

ISA (NZ) 315 (Revised 2019)*Enquiries of Management and Others within the Entity* (Ref: Para. 14(a))**Why Enquiries Are Made of Management and Others Within the Entity**

- A22. Information obtained by the auditor to support an appropriate basis for the identification and assessment of risks, and the design of further audit procedures, may be obtained through enquiries of management and those responsible for financial reporting.
- A23. Enquiries of management and those responsible for financial reporting and of other appropriate individuals within the entity and other employees with different levels of authority may offer the auditor varying perspectives when identifying and assessing risks of material misstatement.

Examples:

- Enquiries directed towards those charged with governance may help the auditor understand the extent of oversight by those charged with governance over the preparation of the financial statements by management. ISA (NZ) 260 (Revised)²⁴ identifies the importance of effective two-way communication in assisting the auditor to obtain information from those charged with governance in this regard.
- Enquiries of employees responsible for initiating, processing or recording complex or unusual transactions may help the auditor to evaluate the appropriateness of the selection and application of certain accounting policies.
- Enquiries directed towards in-house legal counsel may provide information about such matters as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the entity, warranties, post-sales obligations, arrangements (such as joint ventures) with business partners, and the meaning of contractual terms.
- Enquiries directed towards marketing or sales personnel may provide information about changes in the entity's marketing strategies, sales trends, or contractual arrangements with its customers.
- Enquiries directed towards the risk management function (or enquiries of those performing such roles) may provide information about operational and regulatory risks that may affect financial reporting.
- Enquiries directed towards IT personnel may provide information about system changes, system or control failures, or other IT-related risks.

Considerations Specific to Public Sector Entities

- A24. When making enquiries of those who may have information that is likely to assist in identifying risks of material misstatement, auditors of public sector entities may obtain information from additional sources such as from the auditors that are involved in performance or other audits related to the entity.

²⁴ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 4(b)

ISA (NZ) 315 (Revised 2019)

Enquiries of the Internal Audit Function

Appendix 4 sets out considerations for understanding an entity's internal audit function.

Why enquiries are made of the internal audit function (if the function exists)

- A25. If an entity has an internal audit function, enquiries of the appropriate individuals within the function may assist the auditor in understanding the entity and its environment, and the entity's system of internal control, in the identification and assessment of risks.

Considerations specific to public sector entities

- A26. Auditors of public sector entities often have additional responsibilities with regard to internal control and compliance with applicable laws and regulations. Enquiries of appropriate individuals in the internal audit function may assist the auditors in identifying the risk of material non-compliance with applicable laws and regulations, and the risk of control deficiencies related to financial reporting.

Analytical Procedures (Ref: Para. 14(b))

Why Analytical Procedures Are Performed as a Risk Assessment Procedure

- A27. Analytical procedures help identify inconsistencies, unusual transactions or events, and amounts, ratios, and trends that indicate matters that may have audit implications. Unusual or unexpected relationships that are identified may assist the auditor in identifying risks of material misstatement, especially risks of material misstatement due to fraud.
- A28. Analytical procedures performed as risk assessment procedures may therefore assist in identifying and assessing the risks of material misstatement by identifying aspects of the entity of which the auditor was unaware or understanding how inherent risk factors, such as change, affect susceptibility of assertions to misstatement.

Types of Analytical Procedures

- A29. Analytical procedures performed as risk assessment procedures may:
- Include both financial and non-financial information, for example, the relationship between sales and square footage of selling space or volume of goods sold (non-financial).
 - Use data aggregated at a high level. Accordingly, the results of those analytical procedures may provide a broad initial indication about the likelihood of a material misstatement.

ISA (NZ) 315 (Revised 2019)

Example:

In the audit of many entities, including those with less complex business models and processes, and a less complex information system, the auditor may perform a simple comparison of information, such as the change in interim or monthly account balances from balances in prior periods, to obtain an indication of potentially higher risk areas.

- A30. This ISA (NZ) deals with the auditor's use of analytical procedures as risk assessment procedures. ISA (NZ) 520²⁵ deals with the auditor's use of analytical procedures as substantive procedures ("substantive analytical procedures") and the auditor's responsibility to perform analytical procedures near the end of the audit. Accordingly, analytical procedures performed as risk assessment procedures are not required to be performed in accordance with the requirements of ISA (NZ) 520. However, the requirements and application material in ISA (NZ) 520 may provide useful guidance to the auditor when performing analytical procedures as part of the risk assessment procedures.

Automated tools and techniques

- A31. Analytical procedures can be performed using a number of tools or techniques, which may be automated. Applying automated analytical procedures to the data may be referred to as data analytics.

Example:

The auditor may use a spreadsheet to perform a comparison of actual recorded amounts to budgeted amounts, or may perform a more advanced procedure by extracting data from the entity's information system, and further analysing this data using visualisation techniques to identify classes of transactions, account balances or disclosures for which further specific risk assessment procedures may be warranted.

Observation and Inspection (Ref: Para. 14(c))

Why Observation and Inspection Are Performed as Risk Assessment Procedures

- A32. Observation and inspection may support, corroborate or contradict enquiries of management and others, and may also provide information about the entity and its environment.

Scalability

- A33. Where policies or procedures are not documented, or the entity has less formalised controls, the auditor may still be able to obtain some audit evidence to support the identification and assessment of the risks of material misstatement through observation or inspection of the performance of the control.

²⁵ ISA (NZ) 520, *Analytical Procedures*

ISA (NZ) 315 (Revised 2019)**Examples:**

- The auditor may obtain an understanding of controls over an inventory count, even if they have not been documented by the entity, through direct observation.
- The auditor may be able to observe segregation of duties.
- The auditor may be able to observe passwords being entered.

Observation and Inspection as Risk Assessment Procedures

A34. Risk assessment procedures may include observation or inspection of the following:

- The entity's operations.
- Internal documents (such as business plans and strategies), records, and internal control manuals.
- Reports prepared by management (such as quarterly management reports and interim financial statements) and those charged with governance (such as minutes of board of directors' meetings).
- The entity's premises and plant facilities.
- Information obtained from external sources such as trade and economic journals; reports by analysts, banks, or rating agencies; regulatory or financial publications; or other external documents about the entity's financial performance (such as those referred to in paragraph A79).
- The behaviours and actions of management or those charged with governance (such as the observation of an audit committee meeting).

Automated tools and techniques

A35. Automated tools or techniques may also be used to observe or inspect, in particular assets, for example through the use of remote observation tools (e.g., a drone).

Considerations Specific to Public Sector Entities

A36. Risk assessment procedures performed by auditors of public sector entities may also include observation and inspection of documents prepared by management for the legislature, for example documents related to mandatory performance reporting.

Information from Other Sources (Ref: Para. 15)**Why the Auditor Considers Information from Other Sources**

A37. Information obtained from other sources may be relevant to the identification and assessment of the risks of material misstatement by providing information and insights about:

- The nature of the entity and its business risks, and what may have changed from previous periods.

ISA (NZ) 315 (Revised 2019)

- The integrity and ethical values of management and those charged with governance, which may also be relevant to the auditor's understanding of the control environment.
- The applicable financial reporting framework and its application to the nature and circumstances of the entity.

Other Relevant Sources

A38. Other relevant sources of information include:

- The auditor's procedures regarding acceptance or continuance of the client relationship or the audit engagement in accordance with ISA (NZ) 220 (Revised), including the conclusions reached thereon.²⁶
- Other engagements performed for the entity by the engagement partner. The engagement partner may have obtained knowledge relevant to the audit, including about the entity and its environment, when performing other engagements for the entity. Such engagements may include agreed-upon procedures engagements or other audit or assurance engagements, including engagements to address incremental reporting requirements in the jurisdiction.

Information from the Auditor's Previous Experience with the Entity and Previous Audits (Ref: Para. 16)

Why information from previous audits is important to the current audit

A39. The auditor's previous experience with the entity and from audit procedures performed in previous audits may provide the auditor with information that is relevant to the auditor's determination of the nature and extent of risk assessment procedures, and the identification and assessment of risks of material misstatement.

Nature of the Information from Previous Audits

A40. The auditor's previous experience with the entity and audit procedures performed in previous audits may provide the auditor with information about such matters as:

- Past misstatements and whether they were corrected on a timely basis.
- The nature of the entity and its environment, and the entity's system of internal control (including control deficiencies).
- Significant changes that the entity or its operations may have undergone since the prior financial period.
- Those particular types of transactions and other events or account balances (and related disclosures) where the auditor experienced difficulty in performing the necessary audit procedures, for example, due to their complexity.

A41. The auditor is required to determine whether information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous

²⁶ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraphs 22-24

ISA (NZ) 315 (Revised 2019)

audits remains relevant and reliable, if the auditor intends to use that information for the purposes of the current audit. If the nature or circumstances of the entity have changed, or new information has been obtained, the information from prior periods may no longer be relevant or reliable for the current audit. To determine whether changes have occurred that may affect the relevance or reliability of such information, the auditor may make enquiries and perform other appropriate audit procedures, such as walk-throughs of relevant systems. If the information is not reliable, the auditor may consider performing additional procedures that are appropriate in the circumstances.

Engagement Team Discussion (Ref: Para. 17–18)**Why the Engagement Team Is Required to Discuss the Application of the Applicable Financial Reporting Framework and the Susceptibility of the Entity's Financial Statements to Material Misstatement**

A42. The discussion among the engagement team about the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement:

- Provides an opportunity for more experienced engagement team members, including the engagement partner, to share their insights based on their knowledge of the entity. Sharing information contributes to an enhanced understanding by all engagement team members.
- Allows the engagement team members to exchange information about the business risks to which the entity is subject, how inherent risk factors may affect the susceptibility to misstatement of classes of transactions, account balances and disclosures, and about how and where the financial statements might be susceptible to material misstatement due to fraud or error.
- Assists the engagement team members to gain a better understanding of the potential for material misstatement of the financial statements in the specific areas assigned to them, and to understand how the results of the audit procedures that they perform may affect other aspects of the audit, including the decisions about the nature, timing and extent of further audit procedures. In particular, the discussion assists engagement team members in further considering contradictory information based on each member's own understanding of the nature and circumstances of the entity.
- Provides a basis upon which engagement team members communicate and share new information obtained throughout the audit that may affect the assessment of risks of material misstatement or the audit procedures performed to address these risks.

ISA (NZ) 240 requires the engagement team discussion to place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur.²⁷

A43. Professional scepticism is necessary for the critical assessment of audit evidence, and a robust and open engagement team discussion, including for recurring audits, may lead to

²⁷ ISA (NZ) 240, paragraph ~~16~~29

ISA (NZ) 315 (Revised 2019)

improved identification and assessment of the risks of material misstatement. Another outcome from the discussion may be that the auditor identifies specific areas of the audit for which exercising professional scepticism may be particularly important, and may lead to the involvement of more experienced members of the engagement team who are appropriately skilled to be involved in the performance of audit procedures related to those areas.

Scalability

- A44. When the engagement is carried out by a single individual, such as a sole practitioner (i.e., where an engagement team discussion would not be possible), consideration of the matters referred to in paragraphs A42 and A46 nonetheless may assist the auditor in identifying where there may be risks of material misstatement.
- A45. When an engagement is carried out by a large engagement team, such as for an audit of group financial statements, it is not always necessary or practical for the discussion to include all members in a single discussion (for example, in a multi-location audit), nor is it necessary for all the members of the engagement team to be informed of all the decisions reached in the discussion. The engagement partner may discuss matters with key members of the engagement team including, if considered appropriate, those with specific skills or knowledge, and those responsible for the work to be performed at components, while delegating discussion with others, taking into account the extent of communication considered necessary throughout the engagement team. A communications plan, agreed by the engagement partner, may be useful.

Discussion of Disclosures in the Applicable Financial Reporting Framework

- A46. As part of the discussion among the engagement team, consideration of the disclosure requirements of the applicable financial reporting framework assists in identifying early in the audit where there may be risks of material misstatement in relation to disclosures, even in circumstances where the applicable financial reporting framework only requires simplified disclosures. Matters the engagement team may discuss include:
- Changes in financial reporting requirements that may result in significant new or revised disclosures;
 - Changes in the entity's environment, financial condition or activities that may result in significant new or revised disclosures, for example, a significant business combination in the period under audit;
 - Disclosures for which obtaining sufficient appropriate audit evidence may have been difficult in the past; and
 - Disclosures about complex matters, including those involving significant management judgement as to what information to disclose.

Considerations Specific to Public Sector Entities

- A47. As part of the discussion among the engagement team by auditors of public sector entities, consideration may also be given to any additional broader objectives, and related risks, arising from the audit mandate or obligations for public sector entities.

ISA (NZ) 315 (Revised 2019)**Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control (Ref: Para. 19–27)**

Appendices 1 through 6 set out further considerations relating to obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.

Obtaining the Required Understanding (Ref: Para. 19–27)

- A48. Obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control is a dynamic and iterative process of gathering, updating and analysing information and continues throughout the audit. Therefore, the auditor's expectations may change as new information is obtained.
- A49. The auditor's understanding of the entity and its environment and the applicable financial reporting framework may also assist the auditor in developing initial expectations about the classes of transactions, account balances and disclosures that may be significant classes of transactions, account balances and disclosures. These expected significant classes of transactions, account balances and disclosures form the basis for the scope of the auditor's understanding of the entity's information system.

Why an Understanding of the Entity and Its Environment, and the Applicable Financial Reporting Framework Is Required (Ref: Para. 19–20)

- A50. The auditor's understanding of the entity and its environment, and the applicable financial reporting framework, assists the auditor in understanding the events and conditions that are relevant to the entity, and in identifying how inherent risk factors affect the susceptibility of assertions to misstatement in the preparation of the financial statements, in accordance with the applicable financial reporting framework, and the degree to which they do so. Such information establishes a frame of reference within which the auditor identifies and assesses risks of material misstatement. This frame of reference also assists the auditor in planning the audit and exercising professional judgement and professional scepticism throughout the audit, for example, when:
- Identifying and assessing risks of material misstatement of the financial statements in accordance with ISA (NZ) 315 (Revised 2019) or other relevant standards (e.g., relating to risks of material misstatement due to fraud in accordance with ISA (NZ) 240 or when identifying or assessing risks related to accounting estimates in accordance with ISA (NZ) 540 (Revised));
 - Performing procedures to help identify instances of non-compliance with laws and regulations that may have a material effect on the financial statements in accordance with ISA (NZ) 250;²⁸

²⁸ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 14

ISA (NZ) 315 (Revised 2019)

- Evaluating whether the financial statements provide adequate disclosures in accordance with ISA (NZ) 700 (Revised);²⁹
- Determining materiality or performance materiality in accordance with ISA (NZ) 320;³⁰ or
- Considering the appropriateness of the selection and application of accounting policies, and the adequacy of financial statement disclosures.

A51. [Amended by the NZAuASB]

NZ A51. The auditor's understanding of the entity and its environment, and the applicable financial reporting framework, also informs how the auditor plans and performs further audit procedures, for example, when:

- Developing expectations for use when performing analytical procedures in accordance with ISA (NZ) 520;³¹
- Designing and performing further audit procedures to obtain sufficient appropriate audit evidence in accordance with ISA (NZ) 330; and
- Evaluating the sufficiency and appropriateness of audit evidence obtained (e.g., relating to assumptions or management's and, where appropriate, those charged with governance's oral and written representations).

Scalability

A52. The nature and extent of the required understanding is a matter of the auditor's professional judgement and varies from entity to entity based on the nature and circumstances of the entity, including:

- The size and complexity of the entity, including its IT environment;
- The auditor's previous experience with the entity;
- The nature of the entity's systems and processes, including whether they are formalised or not; and
- The nature and form of the entity's documentation.

A53. The auditor's risk assessment procedures to obtain the required understanding may be less extensive in audits of less complex entities and more extensive for entities that are more complex. The depth of the understanding that is required by the auditor is expected to be less than that possessed by management in managing the entity.

A54. Some financial reporting frameworks allow smaller entities to provide simpler and less detailed disclosures in the financial statements. However, this does not relieve the auditor of the responsibility to obtain an understanding of the entity and its environment and the applicable financial reporting framework as it applies to the entity.

²⁹ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 13(e)

³⁰ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraphs 10–11

³¹ ISA (NZ) 520, paragraph 5

ISA (NZ) 315 (Revised 2019)

- A55. The entity's use of IT and the nature and extent of changes in the IT environment may also affect the specialised skills that are needed to assist with obtaining the required understanding.

The Entity and Its Environment (Ref: Para. 19(a))

The Entity's Organisational Structure, Ownership and Governance, and Business Model (Ref: Para. 19(a)(i))

The entity's organisational structure and ownership

- A56. An understanding of the entity's organisational structure and ownership may enable the auditor to understand such matters as:

- The complexity of the entity's structure.

Example:

The entity may be a single entity or the entity's structure may include subsidiaries, divisions or other components in multiple locations. Further, the legal structure may be different from the operating structure. Complex structures often introduce factors that may give rise to increased susceptibility to risks of material misstatement. Such issues may include whether goodwill, joint ventures, investments, or special-purpose entities are accounted for appropriately and whether adequate disclosure of such issues in the financial statements has been made.

- The ownership, and relationships between owners and other people or entities, including related parties. This understanding may assist in determining whether related party transactions have been appropriately identified, accounted for, and adequately disclosed in the financial statements.³²
- The distinction between the owners, those charged with governance and management.

Example:

In less complex entities, owners of the entity may be involved in managing the entity, therefore there is little or no distinction. In contrast, such as in some listed-publicly traded entities, there may be a clear distinction between management, the owners of the entity, and those charged with governance.³³

- The structure and complexity of the entity's IT environment.

³² ISA (NZ) 550 establishes requirements and provide guidance on the auditor's considerations relevant to related parties.

³³ ISA (NZ) 260 (Revised), paragraphs A1 and A2, provide guidance on the identification of those charged with governance and explains that in some cases, some or all of those charged with governance may be involved in managing the entity.

ISA (NZ) 315 (Revised 2019)**Examples:**

An entity may:

- Have multiple legacy IT systems in diverse businesses that are not well integrated resulting in a complex IT environment.
- Be using external or internal service providers for aspects of its IT environment (e.g., outsourcing the hosting of its IT environment to a third party or using a shared service centre for central management of IT processes in a group).

Automated tools and techniques

- A57. The auditor may use automated tools and techniques to understand flows of transactions and processing as part of the auditor's procedures to understand the information system. An outcome of these procedures may be that the auditor obtains information about the entity's organisational structure or those with whom the entity conducts business (e.g., vendors, customers, related parties).

Considerations specific to public sector entities

- A58. Ownership of a public sector entity may not have the same relevance as in the private sector because decisions related to the entity may be made outside of the entity as a result of political processes. Therefore, management may not have control over certain decisions that are made. Matters that may be relevant include understanding the ability of the entity to make unilateral decisions, and the ability of other public sector entities to control or influence the entity's mandate and strategic direction.

Example:

A public sector entity may be subject to laws or other directives from authorities that require it to obtain approval from parties external to the entity of its strategy and objectives prior to it implementing them. Therefore, matters related to understanding the legal structure of the entity may include applicable laws and regulations, and the classification of the entity (i.e., whether the entity is a ministry, department, agency or other type of entity).

Governance

Why the auditor obtains an understanding of governance

- A59. Understanding the entity's governance may assist the auditor with understanding the entity's ability to provide appropriate oversight of its system of internal control. However, this understanding may also provide evidence of deficiencies, which may indicate an increase in the susceptibility of the entity's financial statements to risks of material misstatement.

Understanding the entity's governance

- A60. Matters that may be relevant for the auditor to consider in obtaining an understanding of the governance of the entity include:

ISA (NZ) 315 (Revised 2019)

- Whether any or all of those charged with governance are involved in managing the entity.
- The existence (and separation) of a non-executive Board, if any, from executive management.
- Whether those charged with governance hold positions that are an integral part of the entity's legal structure, for example as directors.
- The existence of sub-groups of those charged with governance, such as an audit committee, and the responsibilities of such a group.
- The responsibilities of those charged with governance for oversight of financial reporting, including approval of the financial statements.

The Entity's Business Model

Appendix 1 sets out additional considerations for obtaining an understanding of the entity and its business model, as well as additional considerations for auditing special purpose entities.

Why the auditor obtains an understanding of the entity's business model

- A61. Understanding the entity's objectives, strategy and business model helps the auditor to understand the entity at a strategic level, and to understand the business risks the entity takes and faces. An understanding of the business risks that have an effect on the financial statements assists the auditor in identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the financial statements.

Examples:

An entity's business model may rely on the use of IT in different ways:

- The entity sells shoes from a physical store, and uses an advanced stock and point of sale system to record the selling of shoes; or
- The entity sells shoes online so that all sales transactions are processed in an IT environment, including initiation of the transactions through a website.

For both of these entities the business risks arising from a significantly different business model would be substantially different, notwithstanding both entities sell shoes.

Understanding the entity's business model

- A62. Not all aspects of the business model are relevant to the auditor's understanding. Business risks are broader than the risks of material misstatement of the financial statements, although business risks include the latter. The auditor does not have a responsibility to understand or identify all business risks because not all business risks give rise to risks of material misstatement.

ISA (NZ) 315 (Revised 2019)

- A63. Business risks increasing the susceptibility to risks of material misstatement may arise from:
- Inappropriate objectives or strategies, ineffective execution of strategies, or change or complexity.
 - A failure to recognise the need for change may also give rise to business risk, for example, from:
 - The development of new products or services that may fail;
 - A market which, even if successfully developed, is inadequate to support a product or service; or
 - Flaws in a product or service that may result in legal liability and reputational risk.
 - Incentives and pressures on management, which may result in intentional or unintentional management bias, and therefore affect the reasonableness of significant assumptions and the expectations of management or those charged with governance.
- A64. Examples of matters that the auditor may consider when obtaining an understanding of the entity's business model, objectives, strategies and related business risks that may result in a risk of material misstatement of the financial statements include:
- Industry developments, such as the lack of personnel or expertise to deal with the changes in the industry;
 - New products and services that may lead to increased product liability;
 - Expansion of the entity's business, and demand has not been accurately estimated;
 - New accounting requirements where there has been incomplete or improper implementation;
 - Regulatory requirements resulting in increased legal exposure;
 - Current and prospective financing requirements, such as loss of financing due to the entity's inability to meet requirements;
 - Use of IT, such as the implementation of a new IT system that will affect both operations and financial reporting; or
 - The effects of implementing a strategy, particularly any effects that will lead to new accounting requirements.
- A65. Ordinarily, management identifies business risks and develops approaches to address them. Such a risk assessment process is part of the entity's system of internal control and is discussed in paragraph 22, and paragraphs A109–A113.

Considerations specific to public sector entities

- A66. Entities operating in the public sector may create and deliver value in different ways to those creating wealth for owners but will still have a 'business model' with a specific

ISA (NZ) 315 (Revised 2019)

objective. Matters public sector auditors may obtain an understanding of that are relevant to the business model of the entity, include:

- Knowledge of relevant government activities, including related programmes.
- Programme objectives and strategies, including public policy elements.

A67. For the audits of public sector entities, “management objectives” may be influenced by requirements to demonstrate public accountability and may include objectives which have their source in law, regulation or other authority.

Industry, Regulatory and Other External Factors (Ref: Para. 19(a)(ii))

Industry factors

A68. Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments. Matters the auditor may consider include:

- The market and competition, including demand, capacity, and price competition.
- Cyclical or seasonal activity.
- Product technology relating to the entity’s products.
- Energy supply and cost.

A69. The industry in which the entity operates may give rise to specific risks of material misstatement arising from the nature of the business or the degree of regulation.

Example:

In the construction industry, long-term contracts may involve significant estimates of revenues and expenses that give rise to risks of material misstatement. In such cases, it is important that the engagement team include members with the appropriate competence and capabilities.³⁴

Regulatory factors

A70. Relevant regulatory factors include the regulatory environment. The regulatory environment encompasses, among other matters, the applicable financial reporting framework and the legal and political environment and any changes thereto. Matters the auditor may consider include:

- Regulatory framework for a regulated industry, for example, prudential requirements, including related disclosures.
- Legislation and regulation that significantly affect the entity’s operations, for example, labour laws and regulations.
- Taxation legislation and regulations.

³⁴ ISA (NZ) 220 (Revised), paragraphs 25-28

ISA (NZ) 315 (Revised 2019)

- Government policies currently affecting the conduct of the entity's business, such as monetary, including foreign exchange controls, fiscal, financial incentives (for example, government aid programmes), and tariffs or trade restriction policies.
- Environmental requirements affecting the industry and the entity's business.

A71. ISA (NZ) 250 (Revised) includes some specific requirements related to the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates.³⁵

Considerations specific to public sector entities

A72. For the audits of public sector entities, there may be particular laws or regulations that affect the entity's operations. Such elements may be an essential consideration when obtaining an understanding of the entity and its environment.

Other external factors

A73. Other external factors affecting the entity that the auditor may consider include the general economic conditions, interest rates and availability of financing, and inflation or currency revaluation.

Measures Used by Management to Assess the Entity's Financial Performance (Ref: Para. 19(a)(iii))

Why the auditor understands measures used by management

A74. An understanding of the entity's measures assists the auditor in considering whether such measures, whether used externally or internally, create pressures on the entity to achieve performance targets. These pressures may motivate management to take actions that increase the susceptibility to misstatement due to management bias or fraud (e.g., to improve the business performance or to intentionally misstate the financial statements) (see ISA (NZ) 240 for requirements and guidance in relation to the risks of material misstatement due to fraud).

A75. Measures may also indicate to the auditor the likelihood of risks of material misstatement of related financial statement information. For example, performance measures may indicate that the entity has unusually rapid growth or profitability when compared to that of other entities in the same industry.

Measures used by management

A76. Management and others ordinarily measure and review those matters they regard as important. Enquiries of management may reveal that it relies on certain key indicators, whether publicly available or not, for evaluating financial performance and taking action. In such cases, the auditor may identify relevant performance measures, whether internal or external, by considering the information that the entity uses to manage its business. If such enquiry indicates an absence of performance measurement or review, there may be an increased risk of misstatements not being detected and corrected.

A77. Key indicators used for evaluating financial performance may include:

³⁵ ISA (NZ) 250 (Revised), paragraph 13

ISA (NZ) 315 (Revised 2019)

- Key performance indicators (financial and non-financial) and key ratios, trends and operating statistics.
- Period-on-period financial performance analyses.
- Budgets, forecasts, variance analyses, segment information and divisional, departmental or other level performance reports.
- Employee performance measures and incentive compensation policies.
- Comparisons of an entity's performance with that of competitors.

Scalability (Ref: Para. 19(a)(iii))

A78. The procedures undertaken to understand the entity's measures may vary depending on the size or complexity of the entity, as well as the involvement of owners or those charged with governance in the management of the entity.

Examples:

- For some less complex entities, the terms of the entity's bank borrowings (i.e., bank covenants) may be linked to specific performance measures related to the entity's performance or financial position (e.g., a maximum working capital amount). The auditor's understanding of the performance measures used by the bank may help identify areas where there is increased susceptibility to the risk of material misstatement.
- For some entities whose nature and circumstances are more complex, such as those operating in the insurance or banking industries, performance or financial position may be measured against regulatory requirements (e.g., regulatory ratio requirements such as capital adequacy and liquidity ratios performance hurdles). The auditor's understanding of these performance measures may help identify areas where there is increased susceptibility to the risk of material misstatement.

Other considerations

A79. External parties may also review and analyse the entity's financial performance, in particular for entities where financial information is publicly available. The auditor may also consider publicly available information to help the auditor further understand the business or identify contradictory information such as information from:

- Analysts or credit agencies.
- News and other media, including social media.
- Taxation authorities.
- Regulators.
- Trade unions.
- Providers of finance.

Such financial information can often be obtained from the entity being audited.

ISA (NZ) 315 (Revised 2019)

A80. The measurement and review of financial performance is not the same as the monitoring of the system of internal control (discussed as a component of the system of internal control in paragraphs A114–A122), though their purposes may overlap:

- The measurement and review of performance is directed at whether business performance is meeting the objectives set by management (or third parties).
- In contrast, monitoring of the system of internal control is concerned with monitoring the effectiveness of controls including those related to management's measurement and review of financial performance.

In some cases, however, performance indicators also provide information that enables management to identify control deficiencies.

Considerations specific to public sector entities

A81. In addition to considering relevant measures used by a public sector entity to assess the entity's financial performance, auditors of public sector entities may also consider non-financial information such as achievement of public benefit outcomes (for example, the number of people assisted by a specific programme).

The Applicable Financial Reporting Framework (Ref: Para. 19(b))

Understanding the Applicable Financial Reporting Framework and the Entity's Accounting Policies

A82. Matters that the auditor may consider when obtaining an understanding of the entity's applicable financial reporting framework, and how it applies in the context of the nature and circumstances of the entity and its environment include:

- The entity's financial reporting practices in terms of the applicable financial reporting framework, such as:
 - Accounting principles and industry-specific practices, including for industry-specific significant classes of transactions, account balances and related disclosures in the financial statements (for example, loans and investments for banks, or research and development for pharmaceuticals).
 - Revenue recognition.
 - Accounting for financial instruments, including related credit losses.
 - Foreign currency assets, liabilities and transactions.
 - Accounting for unusual or complex transactions including those in controversial or emerging areas (for example, accounting for cryptocurrency).
- An understanding of the entity's selection and application of accounting policies, including any changes thereto as well as the reasons therefore, may encompass such matters as:
 - The methods the entity uses to recognise, measure, present and disclose significant and unusual transactions.

ISA (NZ) 315 (Revised 2019)

- The effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
- Changes in the environment, such as changes in the applicable financial reporting framework or tax reforms that may necessitate a change in the entity's accounting policies.
- Financial reporting standards and laws and regulations that are new to the entity and when and how the entity will adopt, or comply with, such requirements.

A83. Obtaining an understanding of the entity and its environment may assist the auditor in considering where changes in the entity's financial reporting (e.g., from prior periods) may be expected.

Example:

If the entity has had a significant business combination during the period, the auditor would likely expect changes in classes of transactions, account balances and disclosures associated with that business combination. Alternatively, if there were no significant changes in the financial reporting framework during the period the auditor's understanding may help confirm that the understanding obtained in the prior period remains applicable.

Considerations specific to public sector entities

A84. The applicable financial reporting framework in a public sector entity is determined by the legislative and regulatory frameworks relevant to each jurisdiction or within each geographical area. Matters that may be considered in the entity's application of the applicable financial reporting requirements, and how it applies in the context of the nature and circumstances of the entity and its environment, include whether the entity applies a full accrual basis of accounting or a cash basis of accounting in accordance with the appropriate tier PBE Accounting Requirements in New Zealand.

How Inherent Risk Factors Affect Susceptibility of Assertions to Misstatement (Ref: Para. 19(c))

Appendix 2 provides examples of events and conditions that may give rise to the existence of risks of material misstatement, categorised by inherent risk factor.

Why the auditor understands inherent risk factors when understanding the entity and its environment and the applicable financial reporting framework

A85. Understanding the entity and its environment, and the applicable financial reporting framework, assists the auditor in identifying events or conditions, the characteristics of which may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement. These characteristics are inherent risk factors. Inherent risk factors may affect susceptibility of assertions to misstatement by influencing the likelihood of occurrence of a misstatement or the magnitude of the misstatement if it were to occur. Understanding how inherent risk factors affect the susceptibility of assertions to misstatement may assist the auditor with a preliminary

ISA (NZ) 315 (Revised 2019)

understanding of the likelihood or magnitude of misstatements, which assists the auditor in identifying risks of material misstatement at the assertion level in accordance with paragraph 28(b). Understanding the degree to which inherent risk factors affect susceptibility of assertions to misstatement also assists the auditor in assessing the likelihood and magnitude of a possible misstatement when assessing inherent risk in accordance with paragraph 31(a). Accordingly, understanding the inherent risk factors may also assist the auditor in designing and performing further audit procedures in accordance with ISA (NZ) 330.

- A86. The auditor's identification of risks of material misstatement at the assertion level and assessment of inherent risk may also be influenced by audit evidence obtained by the auditor in performing other risk assessment procedures, further audit procedures or in fulfilling other requirements in the ISAs (NZ) (see paragraphs A95, A103, A111, A121, A124 and A151).

The effect of inherent risk factors on a class of transactions, account balance or disclosure

- A87. The extent of susceptibility to misstatement of a class of transactions, account balance or disclosure arising from complexity or subjectivity is often closely related to the extent to which it is subject to change or uncertainty.

Example:

If the entity has an accounting estimate that is based on assumptions, the selection of which are subject to significant judgement, the measurement of the accounting estimate is likely to be affected by both subjectivity and uncertainty.

- A88. The greater the extent to which a class of transactions, account balance or disclosure is susceptible to misstatement because of complexity or subjectivity, the greater the need for the auditor to apply professional scepticism. Further, when a class of transactions, account balance or disclosure is susceptible to misstatement because of complexity, subjectivity, change or uncertainty, these inherent risk factors may create opportunity for management bias, whether unintentional or intentional, and affect susceptibility to misstatement due to management bias. The auditor's identification of risks of material misstatement, and assessment of inherent risk at the assertion level, are also affected by the interrelationships among inherent risk factors.
- A89. Events or conditions that may affect susceptibility to misstatement due to management bias may also affect susceptibility to misstatement due to other fraud risk factors. Accordingly, this may be relevant information for use in accordance with paragraph 2438 of ISA (NZ) 240, which requires the auditor to evaluate whether the information obtained from the other risk assessment procedures and related activities indicates that one or more fraud risk factors are present.

ISA (NZ) 315 (Revised 2019)*Obtaining an Understanding of the Entity's System of Internal Control* (Ref: Para. 21–27)

Appendix 3 further describes the nature of the entity's system of internal control and inherent limitations of internal control, respectively. Appendix 3 also provides further explanation of the components of a system of internal control for the purposes of the ISAs (NZ).

- A90. The auditor's understanding of the entity's system of internal control is obtained through risk assessment procedures performed to understand and evaluate each of the components of the system of internal control as set out in paragraphs 21 to 27.
- A91. The components of the entity's system of internal control for the purpose of this ISA (NZ) may not necessarily reflect how an entity designs, implements and maintains its system of internal control, or how it may classify any particular component. Entities may use different terminology or frameworks to describe the various aspects of the system of internal control. For the purpose of an audit, auditors may also use different terminology or frameworks provided all the components described in this ISA (NZ) are addressed.

Scalability

- A92. The way in which the entity's system of internal control is designed, implemented and maintained varies with an entity's size and complexity. For example, less complex entities may use less structured or simpler controls (i.e., policies and procedures) to achieve their objectives.

Considerations Specific to Public Sector Entities

- A93. Auditors of public sector entities often have additional responsibilities with respect to internal control, for example, to report on compliance with an established code of practice or reporting on spending against budget. Auditors of public sector entities may also have responsibilities to report on compliance with law, regulation or other authority. As a result, their considerations about the system of internal control may be broader and more detailed.

Information Technology in the Components of the Entity's System of Internal Control

Appendix 5 provides further guidance on understanding the entity's use of IT in the components of the system of internal control.

- A94. The overall objective and scope of an audit does not differ whether an entity operates in a mainly manual environment, a completely automated environment, or an environment involving some combination of manual and automated elements (i.e., manual and automated controls and other resources used in the entity's system of internal control).

Understanding the Nature of the Components of the Entity's System of Internal Control

- A95. In evaluating the effectiveness of the design of controls and whether they have been implemented (see paragraphs A175 to A181) the auditor's understanding of each of the components of the entity's system of internal control provides a preliminary

ISA (NZ) 315 (Revised 2019)

understanding of how the entity identifies business risks and how it responds to them. It may also influence the auditor's identification and assessment of the risks of material misstatement in different ways (see paragraph A86). This assists the auditor in designing and performing further audit procedures, including any plans to test the operating effectiveness of controls. For example:

- The auditor's understanding of the entity's control environment, the entity's risk assessment process, and the entity's process to monitor controls components are more likely to affect the identification and assessment of risks of material misstatement at the financial statement level.
- The auditor's understanding of the entity's information system and communication, and the entity's control activities component, are more likely to affect the identification and assessment of risks of material misstatement at the assertion level.

Control Environment, The Entity's Risk Assessment Process and the Entity's Process to Monitor the System of Internal Control (Ref: Para. 21–24)

A96. The controls in the control environment, the entity's risk assessment process and the entity's process to monitor the system of internal control are primarily indirect controls (i.e., controls that are not sufficiently precise to prevent, detect or correct misstatements at the assertion level but which support other controls and may therefore have an indirect effect on the likelihood that a misstatement will be detected or prevented on a timely basis). However, some controls within these components may also be direct controls.

Why the auditor is required to understand the control environment, the entity's risk assessment process and the entity's process to monitor the system of internal control

A97. The control environment provides an overall foundation for the operation of the other components of the system of internal control. The control environment does not directly prevent, or detect and correct, misstatements. It may, however, influence the effectiveness of controls in the other components of the system of internal control. Similarly, the entity's risk assessment process and its process for monitoring the system of internal control are designed to operate in a manner that also supports the entire system of internal control.

A98. Because these components are foundational to the entity's system of internal control, any deficiencies in their operation could have pervasive effects on the preparation of the financial statements. Therefore, the auditor's understanding and evaluations of these components affect the auditor's identification and assessment of risks of material misstatement at the financial statement level, and may also affect the identification and assessment of risks of material misstatement at the assertion level. Risks of material misstatement at the financial statement level affect the auditor's design of overall responses, including, as explained in ISA (NZ) 330, an influence on the nature, timing and extent of the auditor's further procedures.³⁶

³⁶ ISA (NZ) 330, paragraphs A1–A3

ISA (NZ) 315 (Revised 2019)

Obtaining an understanding of the control environment (Ref: Para. 21)

Scalability

- A99. The nature of the control environment in a less complex entity is likely to be different from the control environment in a more complex entity. For example, those charged with governance in less complex entities may not include an independent or outside member, and the role of governance may be undertaken directly by the owner-manager where there are no other owners. Accordingly, some considerations about the entity's control environment may be less relevant or may not be applicable.
- A100. In addition, audit evidence about elements of the control environment in less complex entities may not be available in documentary form, in particular where communication between management and other personnel is informal, but the evidence may still be appropriately relevant and reliable in the circumstances.

Examples:

- The organisational structure in a less complex entity will likely be simpler and may include a small number of employees involved in roles related to financial reporting.
- If the role of governance is undertaken directly by the owner-manager, the auditor may determine that the independence of those charged with governance is not relevant.
- Less complex entities may not have a written code of conduct but, instead, develop a culture that emphasises the importance of integrity and ethical behaviour through oral communication and by management example. Consequently, the attitudes, awareness and actions of management or the owner-manager are of particular importance to the auditor's understanding of a less complex entity's control environment.

Understanding the control environment (Ref: Para. 21(a))

- A101. Audit evidence for the auditor's understanding of the control environment may be obtained through a combination of enquiries and other risk assessment procedures (i.e., corroborating enquiries through observation or inspection of documents).
- A102. In considering the extent to which management demonstrates a commitment to integrity and ethical values, the auditor may obtain an understanding through enquiries of management and employees, and through considering information from external sources, about:
- How management communicates to employees its views on business practices and ethical behaviour; and
 - Inspecting management's written code of conduct and observing whether management acts in a manner that supports that code.

Evaluating the control environment (Ref: Para. 21(b))

Why the auditor evaluates the control environment

- A103. The auditor's evaluation of how the entity demonstrates behaviour consistent with the entity's commitment to integrity and ethical values; whether the control environment

ISA (NZ) 315 (Revised 2019)

provides an appropriate foundation for the other components of the entity's system of internal control; and whether any identified control deficiencies undermine the other components of the system of internal control, assists the auditor in identifying potential issues in the other components of the system of internal control. This is because the control environment is foundational to the other components of the entity's system of internal control. This evaluation may also assist the auditor in understanding risks faced by the entity and therefore in identifying and assessing the risks of material misstatement at the financial statement and assertion levels (see paragraph A86).

The auditor's evaluation of the control environment

- A104. The auditor's evaluation of the control environment is based on the understanding obtained in accordance with paragraph 21(a).
- A105. Some entities may be dominated by a single individual who may exercise a great deal of discretion. The actions and attitudes of that individual may have a pervasive effect on the culture of the entity, which in turn may have a pervasive effect on the control environment. Such an effect may be positive or negative.

Example:

Direct involvement by a single individual may be key to enabling the entity to meet its growth and other objectives, and can also contribute significantly to an effective system of internal control. On the other hand, such concentration of knowledge and authority can also lead to an increased susceptibility to misstatement through management override of controls.

- A106. The auditor may consider how the different elements of the control environment may be influenced by the philosophy and operating style of senior management taking into account the involvement of independent members of those charged with governance.
- A107. Although the control environment may provide an appropriate foundation for the system of internal control and may help reduce the risk of fraud, an appropriate control environment is not necessarily an effective deterrent to fraud.

Example:

Human resource policies and procedures directed toward hiring competent financial, accounting, and IT personnel may mitigate the risk of errors in processing and recording financial information. However, such policies and procedures may not mitigate the override of controls by senior management (e.g., to overstate earnings).

- A108. The auditor's evaluation of the control environment as it relates to the entity's use of IT may include such matters as:
- Whether governance over IT is commensurate with the nature and complexity of the entity and its business operations enabled by IT, including the complexity or maturity of the entity's technology platform or architecture and the extent to which the entity relies on IT applications to support its financial reporting.

ISA (NZ) 315 (Revised 2019)

- The management organisational structure regarding IT and the resources allocated (for example, whether the entity has invested in an appropriate IT environment and necessary enhancements, or whether a sufficient number of appropriately skilled individuals have been employed including when the entity uses commercial software (with no or limited modifications)).

Obtaining an understanding of the entity's risk assessment process (Ref: Para. 22–23)

Understanding the entity's risk assessment process (Ref: Para. 22(a))

A109. As explained in paragraph A62, not all business risks give rise to risks of material misstatement. In understanding how management and those charged with governance have identified business risks relevant to the preparation of the financial statements, and decided about actions to address those risks, matters the auditor may consider include how management or, as appropriate, those charged with governance, has:

- Specified the entity's objectives with sufficient precision and clarity to enable the identification and assessment of the risks relating to the objectives;
- Identified the risks to achieving the entity's objectives and analysed the risks as a basis for determining how the risks should be managed; and
- Considered the potential for fraud when considering the risks to achieving the entity's objectives.³⁷

A110. The auditor may consider the implications of such business risks for the preparation of the entity's financial statements and other aspects of its system of internal control.

Evaluating the entity's risk assessment process (Ref: Para. 22(b))

Why the auditor evaluates whether the entity's risk assessment process is appropriate

A111. The auditor's evaluation of the entity's risk assessment process may assist the auditor in understanding where the entity has identified risks that may occur, and how the entity has responded to those risks. The auditor's evaluation of how the entity identifies its business risks, and how it assesses and addresses those risks assists the auditor in understanding whether the risks faced by the entity have been identified, assessed and addressed as appropriate to the nature and complexity of the entity. This evaluation may also assist the auditor with identifying and assessing financial statement level and assertion level risks of material misstatement (see paragraph A86).

Evaluating whether the entity's risk assessment process is appropriate (Ref: Para. 22(b))

A112. The auditor's evaluation of the appropriateness of the entity's risk assessment process is based on the understanding obtained in accordance with paragraph 22(a).

³⁷ ISA (NZ) 240, paragraph ~~19~~33(b)(i)

ISA (NZ) 315 (Revised 2019)

Scalability

- A113. Whether the entity's risk assessment process is appropriate to the entity's circumstances considering the nature and complexity of the entity is a matter of the auditor's professional judgement.

Example:

In some less complex entities, and particularly owner-managed entities, an appropriate risk assessment may be performed through the direct involvement of management or the owner-manager (e.g., the manager or owner-manager may routinely devote time to monitoring the activities of competitors and other developments in the market place to identify emerging business risks). The evidence of this risk assessment occurring in these types of entities is often not formally documented, but it may be evident from the discussions the auditor has with management that management are in fact performing risk assessment procedures.

Obtaining an understanding of the entity's process to monitor the entity's system of internal control (Ref: Para. 24)

Scalability

- A114. In less complex entities, and in particular owner-manager entities, the auditor's understanding of the entity's process to monitor the system of internal control is often focused on how management or the owner-manager is directly involved in operations, as there may not be any other monitoring activities.

Example:

Management may receive complaints from customers about inaccuracies in their monthly statement that alerts the owner-manager to issues with the timing of when customer payments are being recognised in the accounting records.

- A115. For entities where there is no formal process for monitoring the system of internal control, understanding the process to monitor the system of internal control may include understanding periodic reviews of management accounting information that are designed to contribute to how the entity prevents or detects misstatements.

Understanding the entity's process to monitor the system of internal control (Ref: Para. 24(a))

- A116. Matters that may be relevant for the auditor to consider when understanding how the entity monitors its system of internal control include:
- The design of the monitoring activities, for example whether it is periodic or ongoing monitoring;
 - The performance and frequency of the monitoring activities;
 - The evaluation of the results of the monitoring activities, on a timely basis, to determine whether the controls have been effective; and

ISA (NZ) 315 (Revised 2019)

- How identified deficiencies have been addressed through appropriate remedial actions, including timely communication of such deficiencies to those responsible for taking remedial action.

A117. The auditor may also consider how the entity's process to monitor the system of internal control addresses monitoring information processing controls that involve the use of IT. This may include, for example:

- Controls to monitor complex IT environments that:
 - Evaluate the continuing design effectiveness of information processing controls and modify them, as appropriate, for changes in conditions; or
 - Evaluate the operating effectiveness of information processing controls.
- Controls that monitor the permissions applied in automated information processing controls that enforce the segregation of duties.
- Controls that monitor how errors or control deficiencies related to the automation of financial reporting are identified and addressed.

Understanding the entity's internal audit function (Ref: Para. 24(a)(ii))

Appendix 4 sets out further considerations for understanding the entity's internal audit function.

A118. The auditor's enquiries of appropriate individuals within the internal audit function help the auditor obtain an understanding of the nature of the internal audit function's responsibilities. If the auditor determines that the function's responsibilities are related to the entity's financial reporting, the auditor may obtain further understanding of the activities performed, or to be performed, by the internal audit function by reviewing the internal audit function's audit plan for the period, if any, and discussing that plan with the appropriate individuals within the function. This understanding, together with the information obtained from the auditor's enquiries, may also provide information that is directly relevant to the auditor's identification and assessment of the risks of material misstatement. If, based on the auditor's preliminary understanding of the internal audit function, the auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed, ISA (NZ) 610 (Revised 2013)³⁸ applies.

Other sources of information used in the entity's process to monitor the system of internal control

Understanding the sources of information (Ref: Para. 24(b))

A119. Management's monitoring activities may use information in communications from external parties such as customer complaints or regulator comments that may indicate problems or highlight areas in need of improvement.

³⁸ ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*

ISA (NZ) 315 (Revised 2019)

Why the auditor is required to understand the sources of information used for the entity's monitoring of the system of internal control

- A120. The auditor's understanding of the sources of information used by the entity in monitoring the entity's system of internal control, including whether the information used is relevant and reliable, assists the auditor in evaluating whether the entity's process to monitor the entity's system of internal control is appropriate. If management assumes that information used for monitoring is relevant and reliable without having a basis for that assumption, errors that may exist in the information could potentially lead management to draw incorrect conclusions from its monitoring activities.

Evaluating the entity's process to monitor the system of internal control (Ref: Para 24(c))

Why the auditor evaluates whether the entity's process to monitor the system of internal control is appropriate

- A121. The auditor's evaluation about how the entity undertakes ongoing and separate evaluations for monitoring the effectiveness of controls assists the auditor in understanding whether the other components of the entity's system of internal control are present and functioning, and therefore assists with understanding the other components of the entity's system of internal control. This evaluation may also assist the auditor with identifying and assessing financial statement level and assertion level risks of material misstatement (see paragraph A86).

Evaluating whether the entity's process to monitor the system of internal control is appropriate (Ref: Para. 24(c))

- A122. The auditor's evaluation of the appropriateness of the entity's process to monitor the system of internal control is based on the auditor's understanding of the entity's process to monitor the system of internal control.

Information System and Communication, and Control Activities (Ref: Para. 25–26)

- A123. The controls in the information system and communication, and control activities components are primarily direct controls (i.e., controls that are sufficiently precise to prevent, detect or correct misstatements at the assertion level).

Why the auditor Is required to understand the information system and communication and controls in the control activities component

- A124. The auditor is required to understand the entity's information system and communication because understanding the entity's policies that define the flows of transactions and other aspects of the entity's information processing activities relevant to the preparation of the financial statements, and evaluating whether the component appropriately supports the preparation of the entity's financial statements, supports the auditor's identification and assessment of risks of material misstatement at the assertion level. This understanding and evaluation may also result in the identification of risks of material misstatement at the financial statement level when the results of the auditor's procedures are inconsistent with expectations about the entity's system of internal control that may have been set

ISA (NZ) 315 (Revised 2019)

based on information obtained during the engagement acceptance or continuance process (see paragraph A86).

- A125. The auditor is required to identify specific controls in the control activities component, and evaluate the design and determine whether the controls have been implemented, as it assists the auditor's understanding about management's approach to addressing certain risks and therefore provides a basis for the design and performance of further audit procedures responsive to these risks as required by ISA (NZ) 330. The higher on the spectrum of inherent risk a risk is assessed, the more persuasive the audit evidence needs to be. Even when the auditor does not plan to test the operating effectiveness of identified controls, the auditor's understanding may still affect the design of the nature, timing and extent of substantive audit procedures that are responsive to the related risks of material misstatement.

The iterative nature of the auditor's understanding and evaluation of the information system and communication, and control activities

- A126. As explained in paragraph A49, the auditor's understanding of the entity and its environment, and the applicable financial reporting framework, may assist the auditor in developing initial expectations about the classes of transactions, account balances and disclosures that may be significant classes of transactions, account balances and disclosures. In obtaining an understanding of the information system and communication component in accordance with paragraph 25(a), the auditor may use these initial expectations for the purpose of determining the extent of understanding of the entity's information processing activities to be obtained.
- A127. The auditor's understanding of the information system includes understanding the policies that define flows of information relating to the entity's significant classes of transactions, account balances, and disclosures, and other related aspects of the entity's information processing activities. This information, and the information obtained from the auditor's evaluation of the information system may confirm or further influence the auditor's expectations about the significant classes of transactions, account balances and disclosures initially identified (see paragraph A126).
- A128. In obtaining an understanding of how information relating to significant classes of transactions, account balances and disclosures flows into, through, and out of the entity's information system, the auditor may also identify controls in the control activities component that are required to be identified in accordance with paragraph 26(a). The auditor's identification and evaluation of controls in the control activities component may first focus on controls over journal entries and controls that the auditor plans to test the operating effectiveness of in designing the nature, timing and extent of substantive procedures.
- A129. The auditor's assessment of inherent risk may also influence the identification of controls in the control activities component. For example, the auditor's identification of controls relating to significant risks may only be identifiable when the auditor has assessed inherent risk at the assertion level in accordance with paragraph 31. Furthermore, controls addressing risks for which the auditor has determined that substantive procedures alone do not provide sufficient appropriate audit evidence (in accordance with paragraph 33)

ISA (NZ) 315 (Revised 2019)

may also only be identifiable once the auditor's inherent risk assessments have been undertaken.

A130. The auditor's identification and assessment of risks of material misstatement at the assertion level is influenced by both the auditor's:

- Understanding of the entity's policies for its information processing activities in the information system and communication component, and
- Identification and evaluation of controls in the control activities component.

Obtaining an understanding of the information system and communication (Ref: Para. 25)

Appendix 3, Paragraphs 15–19, sets out further considerations relating to the information system and communication.

Scalability

A131. The information system, and related business processes, in less complex entities are likely to be less sophisticated than in larger entities, and are likely to involve a less complex IT environment; however, the role of the information system is just as important. Less complex entities with direct management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies. Understanding the relevant aspects of the entity's information system may therefore require less effort in an audit of a less complex entity, and may involve a greater amount of enquiry than observation or inspection of documentation. The need to obtain an understanding, however, remains important to provide a basis for the design of further audit procedures in accordance with ISA (NZ) 330 and may further assist the auditor in identifying or assessing risks of material misstatement (see paragraph A86).

Obtaining an understanding of the information system (Ref: Para. 25(a))

A132. Included within the entity's system of internal control are aspects that relate to the entity's reporting objectives, including its financial reporting objectives, but may also include aspects that relate to its operations or compliance objectives, when such aspects are relevant to financial reporting. Understanding how the entity initiates transactions and captures information as part of the auditor's understanding of the information system may include information about the entity's systems (its policies) designed to address compliance and operations objectives because such information is relevant to the preparation of the financial statements. Further, some entities may have information systems that are highly integrated such that controls may be designed in a manner to simultaneously achieve financial reporting, compliance and operational objectives, and combinations thereof.

A133. Understanding the entity's information system also includes an understanding of the resources to be used in the entity's information processing activities. Information about the human resources involved that may be relevant to understanding risks to the integrity of the information system include:

- The competence of the individuals undertaking the work;

ISA (NZ) 315 (Revised 2019)

- Whether there are adequate resources; and
- Whether there is appropriate segregation of duties.

A134. Matters the auditor may consider when understanding the policies that define the flows of information relating to the entity's significant classes of transactions, account balances, and disclosures in the information system and communication component include the nature of:

- (a) The data or information relating to transactions, other events and conditions to be processed;
- (b) The information processing to maintain the integrity of that data or information; and
- (c) The information processes, personnel and other resources used in the information processing process.

A135. Obtaining an understanding of the entity's business processes, which include how transactions are originated, assists the auditor in obtaining an understanding of the entity's information system in a manner that is appropriate to the entity's circumstances.

A136. The auditor's understanding of the information system may be obtained in various ways and may include:

- Enquiries of relevant personnel about the procedures used to initiate, record, process and report transactions or about the entity's financial reporting process;
- Inspection of policy or process manuals or other documentation of the entity's information system;
- Observation of the performance of the policies or procedures by entity's personnel; or
- Selecting transactions and tracing them through the applicable process in the information system (i.e., performing a walk-through).

Automated tools and techniques

A137. The auditor may also use automated techniques to obtain direct access to, or a digital download from, the databases in the entity's information system that store accounting records of transactions. By applying automated tools or techniques to this information, the auditor may confirm the understanding obtained about how transactions flow through the information system by tracing journal entries, or other digital records related to a particular transaction, or an entire population of transactions, from initiation in the accounting records through to recording in the general ledger. Analysis of complete or large sets of transactions may also result in the identification of variations from the normal, or expected, processing procedures for these transactions, which may result in the identification of risks of material misstatement.

Information obtained from outside of the general and subsidiary ledgers

A138. Financial statements may contain information that is obtained from outside of the general and subsidiary ledgers. Examples of such information that the auditor may consider include:

ISA (NZ) 315 (Revised 2019)

- Information obtained from lease agreements relevant to disclosures in the financial statements.
- Information disclosed in the financial statements that is produced by an entity's risk management system.
- Fair value information produced by management's experts and disclosed in the financial statements.
- Information disclosed in the financial statements that has been obtained from models, or from other calculations used to develop accounting estimates recognised or disclosed in the financial statements, including information relating to the underlying data and assumptions used in those models, such as:
 - Assumptions developed internally that may affect an asset's useful life; or
 - Data such as interest rates that are affected by factors outside the control of the entity.
- Information disclosed in the financial statements about sensitivity analyses derived from financial models that demonstrates that management has considered alternative assumptions.
- Information recognised or disclosed in the financial statements that has been obtained from an entity's tax returns and records.
- Information disclosed in the financial statements that has been obtained from analyses prepared to support management's assessment of the entity's ability to continue as a going concern, such as disclosures, if any, related to events or conditions that have been identified that may cast significant doubt on the entity's ability to continue as a going concern.³⁹

A139. Certain amounts or disclosures in the entity's financial statements (such as disclosures about credit risk, liquidity risk, and market risk) may be based on information obtained from the entity's risk management system. However, the auditor is not required to understand all aspects of the risk management system, and uses professional judgement in determining the necessary understanding.

The entity's use of information technology in the information system

Why does the auditor understand the IT environment relevant to the information system

A140. The auditor's understanding of the information system includes the IT environment relevant to the flows of transactions and processing of information in the entity's information system because the entity's use of IT applications or other aspects in the IT environment may give rise to risks arising from the use of IT.

A141. The understanding of the entity's business model and how it integrates the use of IT may also provide useful context to the nature and extent of IT expected in the information system.

³⁹ ISA (NZ) 570 (Revised), paragraphs ~~19–20~~A25

ISA (NZ) 315 (Revised 2019)

Understanding the entity's use of IT

- A142. The auditor's understanding of the IT environment may focus on identifying, and understanding the nature and number of, the specific IT applications and other aspects of the IT environment that are relevant to the flows of transactions and processing of information in the information system. Changes in the flow of transactions, or information within the information system may result from program changes to IT applications, or direct changes to data in databases involved in processing, or storing those transactions or information.
- A143. The auditor may identify the IT applications and supporting IT infrastructure concurrently with the auditor's understanding of how information relating to significant classes of transactions, account balances and disclosures flows into, through and out the entity's information system.

Obtaining an understanding of the entity's communication (Ref: Para. 25(b))

Scalability

- A144. In larger, more complex entities, information the auditor may consider when understanding the entity's communication may come from policy manuals and financial reporting manuals.
- A145. In less complex entities, communication may be less structured (e.g., formal manuals may not be used) due to fewer levels of responsibility and management's greater visibility and availability. Regardless of the size of the entity, open communication channels facilitate the reporting of exceptions and acting on them.

Evaluating whether the relevant aspects of the information system support the preparation of the entity's financial statements (Ref: Para. 25(c))

- A146. The auditor's evaluation of whether the entity's information system and communication appropriately supports the preparation of the financial statements is based on the understanding obtained in paragraphs 25(a)–(b).

Control Activities (Ref: Para. 26)

Controls in the control activities component

Appendix 3, Paragraphs 20 and 21 set out further considerations relating to control activities.

- A147. The control activities component includes controls that are designed to ensure the proper application of policies (which are also controls) in all the other components of the entity's system of internal control, and includes both direct and indirect controls.

Example:

The controls that an entity has established to ensure that its personnel are properly counting and recording the annual physical inventory relate directly to the risks of material misstatement relevant to the existence and completeness assertions for the inventory account balance.

ISA (NZ) 315 (Revised 2019)

- A148. The auditor's identification and evaluation of controls in the control activities component is focused on information processing controls, which are controls applied during the processing of information in the entity's information system that directly address risks to the integrity of information (i.e., the completeness, accuracy and validity of transactions and other information). However, the auditor is not required to identify and evaluate all information processing controls related to the entity's policies that define the flows of transactions and other aspects of the entity's information processing activities for the significant classes of transactions, account balances and disclosures.
- A149. There may also be direct controls that exist in the control environment, the entity's risk assessment process or the entity's process to monitor the system of internal control, which may be identified in accordance with paragraph 26. However, the more indirect the relationship between controls that support other controls and the control that is being considered, the less effective that control may be in preventing, or detecting and correcting, related misstatements.

Example:

A sales manager's review of a summary of sales activity for specific stores by region ordinarily is only indirectly related to the risks of material misstatement relevant to the completeness assertion for sales revenue. Accordingly, it may be less effective in addressing those risks than controls more directly related thereto, such as matching shipping documents with billing documents.

- A150. Paragraph 26 also requires the auditor to identify and evaluate general IT controls for IT applications and other aspects of the IT environment that the auditor has determined to be subject to risks arising from the use of IT, because general IT controls support the continued effective functioning of information processing controls. A general IT control alone is typically not sufficient to address a risk of material misstatement at the assertion level.
- A151. The controls that the auditor is required to identify and evaluate the design, and determine the implementation of, in accordance with paragraph 26 are those:
- Controls which the auditor plans to test the operating effectiveness of in determining the nature, timing and extent of substantive procedures. The evaluation of such controls provides the basis for the auditor's design of test of control procedures in accordance with ISA (NZ) 330. These controls also include controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.
 - Controls include controls that address significant risks and controls over journal entries. The auditor's identification and evaluation of such controls may also influence the auditor's understanding of the risks of material misstatement, including the identification of additional risks of material misstatement (see paragraph A95). This understanding also provides the basis for the auditor's design of the nature, timing and extent of substantive audit procedures that are responsive to the related assessed risks of material misstatement.

ISA (NZ) 315 (Revised 2019)

- Other controls that the auditor considers are appropriate to enable the auditor to meet the objectives of paragraph 13 with respect to risks at the assertion level, based on the auditor's professional judgement.

A152. Controls in the control activities component are required to be identified when such controls meet one or more of the criteria included in paragraph 26(a). However, when multiple controls each achieve the same objective, it is unnecessary to identify each of the controls related to such objective.

Types of controls in the control activities component (Ref: Para. 26)

- A153. Examples of controls in the control activities component include authorisations and approvals, reconciliations, verifications (such as edit and validation checks or automated calculations), segregation of duties, and physical or logical controls, including those addressing safeguarding of assets.
- A154. Controls in the control activities component may also include controls established by management that address risks of material misstatement related to disclosures not being prepared in accordance with the applicable financial reporting framework. Such controls may relate to information included in the financial statements that is obtained from outside of the general and subsidiary ledgers.
- A155. Regardless of whether controls are within the IT environment or manual systems, controls may have various objectives and may be applied at various organisational and functional levels.

Scalability (Ref: Para. 26)

- A156. Controls in the control activities component for less complex entities are likely to be similar to those in larger entities, but the formality with which they operate may vary. Further, in less complex entities, more controls may be directly applied by management.

Example:

Management's sole authority for granting credit to customers and approving significant purchases can provide strong control over important account balances and transactions.

- A157. It may be less practicable to establish segregation of duties in less complex entities that have fewer employees. However, in an owner-managed entity, the owner-manager may be able to exercise more effective oversight through direct involvement than in a larger entity, which may compensate for the generally more limited opportunities for segregation of duties. Although, as also explained in ISA (NZ) 240, domination of management by a single individual can be a potential control deficiency since there is an opportunity for management override of controls.⁴⁰

⁴⁰ ISA (NZ) 240, paragraph [A28A112](#)

ISA (NZ) 315 (Revised 2019)

Controls that address risks of material misstatement at the assertion level (Ref: Para. 26(a))

Controls that address risks that are determined to be a significant risk (Ref: Para. 26(a)(i))

A158. Regardless of whether the auditor plans to test the operating effectiveness of controls that address significant risks, the understanding obtained about management's approach to addressing those risks may provide a basis for the design and performance of substantive procedures responsive to significant risks as required by ISA (NZ) 330.⁴¹ Although risks relating to significant non-routine or judgemental matters are often less likely to be subject to routine controls, management may have other responses intended to deal with such risks. Accordingly, the auditor's understanding of whether the entity has designed and implemented controls for significant risks arising from non-routine or judgemental matters may include whether and how management responds to the risks. Such responses may include:

- Controls, such as a review of assumptions by senior management or experts.
- Documented processes for accounting estimations.
- Approval by those charged with governance.

Example:

Where there are one-off events such as the receipt of a notice of a significant lawsuit, consideration of the entity's response may include such matters as whether it has been referred to appropriate experts (such as internal or external legal counsel), whether an assessment has been made of the potential effect, and how it is proposed that the circumstances are to be disclosed in the financial statements.

A159. ISA (NZ) 240⁴² requires the auditor to understand controls related to assessed risks of material misstatement due to fraud (which are treated as significant risks), and further explains that it is important for the auditor to obtain an understanding of the controls that management has designed, implemented and maintained to prevent and detect fraud.

Controls over journal entries (Ref: Para. 26(a)(ii))

A160. Controls that address risks of material misstatement at the assertion level that are expected to be identified for all audits are controls over journal entries, because the manner in which an entity incorporates information from transaction processing into the general ledger ordinarily involves the use of journal entries, whether standard or non-standard, or automated or manual. The extent to which other controls are identified may vary based on the nature of the entity and the auditor's planned approach to further audit procedures.

⁴¹ ISA (NZ) 330, paragraph 21

⁴² ISA (NZ) 240, paragraphs [28](#)[36](#), [39\(b\)](#) and [A33A102](#)

ISA (NZ) 315 (Revised 2019)

Example:

In an audit of a less complex entity, the entity's information system may not be complex and the auditor may not plan to rely on the operating effectiveness of controls. Further, the auditor may not have identified any significant risks or any other risks of material misstatement for which it is necessary for the auditor to evaluate the design of controls and determine that they have been implemented. In such an audit, the auditor may determine that there are no identified controls other than the entity's controls over journal entries.

Automated tools and techniques

- A161. In manual general ledger systems, non-standard journal entries may be identified through inspection of ledgers, journals, and supporting documentation. When automated procedures are used to maintain the general ledger and prepare financial statements, such entries may exist only in electronic form and may therefore be more easily identified through the use of automated techniques.

Example:

In the audit of a less complex entity, the auditor may be able to extract a total listing of all journal entries into a simple spreadsheet. It may then be possible for the auditor to sort the journal entries by applying a variety of filters such as currency amount, name of the preparer or reviewer, journal entries that gross up the balance sheet and income statement only, or to view the listing by the date the journal entry was posted to the general ledger, to assist the auditor in designing responses to the risks identified relating to journal entries.

Controls for which the auditor plans to test the operating effectiveness (Ref: Para. 26(a)(iii))

- A162. The auditor determines whether there are any risks of material misstatement at the assertion level for which it is not possible to obtain sufficient appropriate audit evidence through substantive procedures alone. The auditor is required, in accordance with ISA (NZ) 330,⁴³ to design and perform tests of controls that address such risks of material misstatement when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. As a result, when such controls exist that address these risks, they are required to be identified and evaluated.
- A163. In other cases, when the auditor plans to take into account the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures in accordance with ISA (NZ) 330, such controls are also required to be identified because ISA (NZ) 330⁴⁴ requires the auditor to design and perform tests of those controls.

⁴³ ISA (NZ) 330, paragraph 8(b)

⁴⁴ ISA (NZ) 330, paragraph 8(a)

ISA (NZ) 315 (Revised 2019)

Examples:

The auditor may plan to test the operating effectiveness of controls:

- Over routine classes of transactions because such testing may be more effective or efficient for large volumes of homogenous transactions.
- Over the completeness and accuracy of information produced by the entity (e.g., controls over the preparation of system-generated reports), to determine the reliability of that information, when the auditor intends to take into account the operating effectiveness of those controls in designing and performing further audit procedures.
- Relating to operations and compliance objectives when they relate to data the auditor evaluates or uses in applying audit procedures.

A164. The auditor's plans to test the operating effectiveness of controls may also be influenced by the identified risks of material misstatement at the financial statement level. For example, if deficiencies are identified related to the control environment, this may affect the auditor's overall expectations about the operating effectiveness of direct controls.

Other controls that the auditor considers appropriate (Ref: Para. 26(a)(iv))

A165. Other controls that the auditor may consider are appropriate to identify, and evaluate the design and determine the implementation, may include:

- Controls that address risks assessed as higher on the spectrum of inherent risk but have not been determined to be a significant risk;
- Controls related to reconciling detailed records to the general ledger; or
- Complementary user entity controls, if using a service organisation.⁴⁵

Identifying IT applications and other aspects of the IT environment, risks arising from the use of IT and general IT controls (Ref: Para. 26(b)–(c))

Appendix 5 includes example characteristics of IT applications and other aspects of the IT environment, and guidance related to those characteristics, that may be relevant in identifying IT applications and other aspects of the IT environment subject to risks arising from the use of IT.

Identifying IT applications and other aspects of the IT environment (Ref: Para. 26((b)))

Why the auditor identifies risks arising from the use of IT and general IT controls related to identified IT applications and other aspects of the IT environment

A166. Understanding the risks arising from the use of IT and the general IT controls implemented by the entity to address those risks may affect:

- The auditor's decision about whether to test the operating effectiveness of controls to address risks of material misstatement at the assertion level;

⁴⁵ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

ISA (NZ) 315 (Revised 2019)

Example:

When general IT controls are not designed effectively or appropriately implemented to address risks arising from the use of IT (e.g., controls do not appropriately prevent or detect unauthorised program changes or unauthorised access to IT applications), this may affect the auditor's decision to rely on automated controls within the affected IT applications.

- The auditor's assessment of control risk at the assertion level;

Example:

The ongoing operating effectiveness of an information processing control may depend on certain general IT controls that prevent or detect unauthorised program changes to the IT information processing control (i.e., program change controls over the related IT application). In such circumstances, the expected operating effectiveness (or lack thereof) of the general IT control may affect the auditor's assessment of control risk (e.g., control risk may be higher when such general IT controls are expected to be ineffective or if the auditor does not plan to test the general IT controls).

- The auditor's strategy for testing information produced by the entity that is produced by or involves information from the entity's IT applications;

Example:

When information produced by the entity to be used as audit evidence is produced by IT applications, the auditor may determine to test controls over system-generated reports, including identification and testing of the general IT controls that address risks of inappropriate or unauthorised program changes or direct data changes to the reports.

- The auditor's assessment of inherent risk at the assertion level; or

Example:

When there are significant or extensive programming changes to an IT application to address new or revised reporting requirements of the applicable financial reporting framework, this may be an indicator of the complexity of the new requirements and their effect on the entity's financial statements. When such extensive programming or data changes occur, the IT application is also likely to be subject to risks arising from the use of IT.

- The design of further audit procedures.

Example:

If information processing controls depend on general IT controls, the auditor may determine to test the operating effectiveness of the general IT controls, which will then require the design of tests of controls for such general IT controls. If, in the same circumstances, the auditor determines not to test the operating effectiveness of the general

ISA (NZ) 315 (Revised 2019)

IT controls, or the general IT controls are expected to be ineffective, the related risks arising from the use of IT may need to be addressed through the design of substantive procedures. However, the risks arising from the use of IT may not be able to be addressed when such risks relate to risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. In such circumstances, the auditor may need to consider the implications for the audit opinion.

Identifying IT applications that are subject to risks arising from the use of IT

- A167. For the IT applications relevant to the information system, understanding the nature and complexity of the specific IT processes and general IT controls that the entity has in place may assist the auditor in determining which IT applications the entity is relying upon to accurately process and maintain the integrity of information in the entity's information system. Such IT applications may be subject to risks arising from the use of IT.
- A168. Identifying the IT applications that are subject to risks arising from the use of IT involves taking into account controls identified by the auditor because such controls may involve the use of IT or rely on IT. The auditor may focus on whether an IT application includes automated controls that management is relying on and that the auditor has identified, including controls that address risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. The auditor may also consider how information is stored and processed in the information system relating to significant classes of transactions, account balances and disclosures and whether management is relying on general IT controls to maintain the integrity of that information.
- A169. The controls identified by the auditor may depend on system-generated reports, in which case the IT applications that produce those reports may be subject to risks arising from the use of IT. In other cases, the auditor may not plan to rely on controls over the system-generated reports and plan to directly test the inputs and outputs of such reports, in which case the auditor may not identify the related IT applications as being subject to risks arising from IT.

Scalability

- A170. The extent of the auditor's understanding of the IT processes, including the extent to which the entity has general IT controls in place, will vary with the nature and the circumstances of the entity and its IT environment, as well as based on the nature and extent of controls identified by the auditor. The number of IT applications that are subject to risks arising from the use of IT also will vary based on these factors.

Examples:

- An entity that uses commercial software and does not have access to the source code to make any program changes is unlikely to have a process for program changes, but may have a process or procedures to configure the software (e.g., the chart of accounts, reporting parameters or thresholds). In addition, the entity may have a process or procedures to manage access to the application (e.g., a designated individual with

ISA (NZ) 315 (Revised 2019)

administrative access to the commercial software). In such circumstances, the entity is unlikely to have or need formalised general IT controls.

- In contrast, a larger entity may rely on IT to a great extent and the IT environment may involve multiple IT applications and the IT processes to manage the IT environment may be complex (e.g., a dedicated IT department exists that develops and implements program changes and manages access rights), including that the entity has implemented formalised general IT controls over its IT processes.
- When management is not relying on automated controls or general IT controls to process transactions or maintain the data, and the auditor has not identified any automated controls or other information processing controls (or any that depend on general IT controls), the auditor may plan to directly test any information produced by the entity involving IT and may not identify any IT applications that are subject to risks arising from the use of IT.
- When management relies on an IT application to process or maintain data and the volume of data is significant, and management relies upon the IT application to perform automated controls that the auditor has also identified, the IT application is likely to be subject to risks arising from the use of IT.

A171. When an entity has greater complexity in its IT environment, identifying the IT applications and other aspects of the IT environment, determining the related risks arising from the use of IT, and identifying general IT controls is likely to require the involvement of team members with specialised skills in IT. Such involvement is likely to be essential, and may need to be extensive, for complex IT environments.

Identifying other aspects of the IT environment that are subject to risks arising from the use of IT

A172. The other aspects of the IT environment that may be subject to risks arising from the use of IT include the network, operating system and databases, and, in certain circumstances, interfaces between IT applications. Other aspects of the IT environment are generally not identified when the auditor does not identify IT applications that are subject to risks arising from the use of IT. When the auditor has identified IT applications that are subject to risks arising from IT, other aspects of the IT environment (e.g., database, operating system, network) are likely to be identified because such aspects support and interact with the identified IT applications.

Identifying risks arising from the use of IT and general IT controls (Ref: Para. 26(c))

Appendix 6 sets out considerations for understanding general IT controls.

A173. In identifying the risks arising from the use of IT, the auditor may consider the nature of the identified IT application or other aspect of the IT environment and the reasons for it being subject to risks arising from the use of IT. For some identified IT applications or other aspects of the IT environment, the auditor may identify applicable risks arising from the use of IT that relate primarily to unauthorised access or unauthorised program changes, as well as that address risks related to inappropriate data changes (e.g., the risk

ISA (NZ) 315 (Revised 2019)

of inappropriate changes to the data through direct database access or the ability to directly manipulate information).

- A174. The extent and nature of the applicable risks arising from the use of IT vary depending on the nature and characteristics of the identified IT applications and other aspects of the IT environment. Applicable IT risks may result when the entity uses external or internal service providers for identified aspects of its IT environment (e.g., outsourcing the hosting of its IT environment to a third party or using a shared service centre for central management of IT processes in a group). Applicable risks arising from the use of IT may also be identified related to cybersecurity. It is more likely that there will be more risks arising from the use of IT when the volume or complexity of automated application controls is higher and management is placing greater reliance on those controls for effective processing of transactions or the effective maintenance of the integrity of underlying information.

Evaluating the design, and determining implementation, of identified controls in the control activities component (Ref: Para 26(d))

- A175. Evaluating the design of an identified control involves the auditor's consideration of whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements (i.e., the control objective).
- A176. The auditor determines the implementation of an identified control by establishing that the control exists and that the entity is using it. There is little point in the auditor assessing the implementation of a control that is not designed effectively. Therefore, the auditor evaluates the design of a control first. An improperly designed control may represent a control deficiency.
- A177. Risk assessment procedures to obtain audit evidence about the design and implementation of identified controls in the control activities component may include:
- Enquiring of entity personnel.
 - Observing the application of specific controls.
 - Inspecting documents and reports.

Enquiry alone, however, is not sufficient for such purposes.

- A178. The auditor may expect, based on experience from the previous audit or based on current period risk assessment procedures, that management does not have effectively designed or implemented controls to address a significant risk. In such instances, the procedures performed to address the requirement in paragraph 26(d) may consist of determining that such controls have not been effectively designed or implemented. If the results of the procedures indicate that controls have been newly designed or implemented, the auditor is required to perform the procedures in paragraph 26(b)–(d) on the newly designed or implemented controls.
- A179. The auditor may conclude that a control, which is effectively designed and implemented, may be appropriate to test in order to take its operating effectiveness into account in designing substantive procedures. However, when a control is not designed or

ISA (NZ) 315 (Revised 2019)

implemented effectively, there is no benefit in testing it. When the auditor plans to test a control, the information obtained about the extent to which the control addresses the risk(s) of material misstatement is an input to the auditor's control risk assessment at the assertion level.

- A180. Evaluating the design and determining the implementation of identified controls in the control activities component is not sufficient to test their operating effectiveness. However, for automated controls, the auditor may plan to test the operating effectiveness of automated controls by identifying and testing general IT controls that provide for the consistent operation of an automated control instead of performing tests of operating effectiveness on the automated controls directly. Obtaining audit evidence about the implementation of a manual control at a point in time does not provide audit evidence about the operating effectiveness of the control at other times during the period under audit. Tests of the operating effectiveness of controls, including tests of indirect controls, are further described in ISA (NZ) 330.⁴⁶
- A181. When the auditor does not plan to test the operating effectiveness of identified controls, the auditor's understanding may still assist in the design of the nature, timing and extent of substantive audit procedures that are responsive to the related risks of material misstatement.

Example:

The results of these risk assessment procedures may provide a basis for the auditor's consideration of possible deviations in a population when designing audit samples.

Control Deficiencies Within the Entity's System of Internal Control (Ref: Para. 27)

- A182. In performing the evaluations of each of the components of the entity's system of internal control,⁴⁷ the auditor may determine that certain of the entity's policies in a component are not appropriate to the nature and circumstances of the entity. Such a determination may be an indicator that assists the auditor in identifying control deficiencies. If the auditor has identified one or more control deficiencies, the auditor may consider the effect of those control deficiencies on the design of further audit procedures in accordance with ISA (NZ) 330.
- A183. If the auditor has identified one or more control deficiencies, ISA (NZ) 265⁴⁸ requires the auditor to determine whether, individually or in combination, the deficiencies constitute a significant deficiency. The auditor uses professional judgement in determining whether a deficiency represents a significant control deficiency.⁴⁹

⁴⁶ ISA (NZ) 330, paragraphs 8–11

⁴⁷ Paragraphs 21(b), 22(b), 24(c), 25(c) and 26(d)

⁴⁸ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph 8

⁴⁹ ISA (NZ) 265, paragraphs A6–A7 set out indicators of significant deficiencies, and matters to be considered in determining whether a deficiency, or a combination of deficiencies, in internal control constitute a significant deficiency.

ISA (NZ) 315 (Revised 2019)**Examples:**

Circumstances that may indicate a significant control deficiency exists include matters such as:

- The identification of fraud of any magnitude that involves senior management;
- Identified internal processes that are inadequate relating to the reporting and communication of deficiencies noted by internal audit;
- Previously communicated deficiencies that are not corrected by management in a timely manner;
- Failure by management to respond to significant risks, for example, by not implementing controls over significant risks; and
- The restatement of previously issued financial statements.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 28–37)*Why the Auditor Identifies and Assesses the Risks of Material Misstatement*

- A184. Risks of material misstatement are identified and assessed by the auditor in order to determine the nature, timing and extent of further audit procedures necessary to obtain sufficient appropriate audit evidence. This evidence enables the auditor to express an opinion on the financial statements at an acceptably low level of audit risk.
- A185. Information gathered by performing risk assessment procedures is used as audit evidence to provide the basis for the identification and assessment of the risks of material misstatement. For example, the audit evidence obtained when evaluating the design of identified controls and determining whether those controls have been implemented in the control activities component, is used as audit evidence to support the risk assessment. Such evidence also provides a basis for the auditor to design overall responses to address the assessed risks of material misstatement at the financial statement level, as well as designing and performing further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement at the assertion level, in accordance with ISA (NZ) 330.

Identifying Risks of Material Misstatement (Ref: Para. 28)

- A186. The identification of risks of material misstatement is performed before consideration of any related controls (i.e., the inherent risk), and is based on the auditor's preliminary consideration of misstatements that have a reasonable possibility of both occurring, and being material if they were to occur.⁵⁰
- A187. Identifying the risks of material misstatement also provides the basis for the auditor's determination of relevant assertions, which assists the auditor's determination of the significant classes of transactions, account balances and disclosures.

⁵⁰ ISA (NZ) 200, paragraph [A15aA21](#)

ISA (NZ) 315 (Revised 2019)*Assertions***Why the Auditor Uses Assertions**

A188. In identifying and assessing the risks of material misstatement, the auditor uses assertions to consider the different types of potential misstatements that may occur. Assertions for which the auditor has identified related risks of material misstatement are relevant assertions.

The Use of Assertions

A189. In identifying and assessing the risks of material misstatement, the auditor may use the categories of assertions as described in paragraph A190(a)–(b) below or may express them differently provided all aspects described below have been covered. The auditor may choose to combine the assertions about classes of transactions and events, and related disclosures, with the assertions about account balances, and related disclosures.

A190. Assertions used by the auditor in considering the different types of potential misstatements that may occur may fall into the following categories:

- (a) Assertions about classes of transactions and events, and related disclosures, for the period under audit:
 - (i) Occurrence—transactions and events that have been recorded or disclosed have occurred, and such transactions and events pertain to the entity.
 - (ii) Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.
 - (iii) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.
 - (iv) Cutoff—transactions and events have been recorded in the correct accounting period.
 - (v) Classification—transactions and events have been recorded in the proper accounts.
 - (vi) Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.
- (b) Assertions about account balances, and related disclosures, at the period end:
 - (i) Existence—assets, liabilities and equity interests exist.
 - (ii) Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
 - (iii) Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.

ISA (NZ) 315 (Revised 2019)

- (iv) Accuracy, valuation and allocation—assets, liabilities and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.
- (v) Classification—assets, liabilities and equity interests have been recorded in the proper accounts.
- (vi) Presentation—assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

A191. The assertions described in paragraph A190(a)–(b) above, adapted as appropriate, may also be used by the auditor in considering the different types of misstatements that may occur in disclosures not directly related to recorded classes of transactions, events or account balances.

Example:

An example of such a disclosure includes where the entity may be required by the applicable financial reporting framework to describe its exposure to risks arising from financial instruments, including how the risks arise; the objectives, policies and processes for managing the risks; and the methods used to measure the risks.

Considerations Specific to Public Sector Entities

A192. When making assertions about the financial statements of public sector entities, in addition to those assertions set out in paragraph A190(a)–(b), management may often assert that transactions and events have been carried out in accordance with law, regulation or other authority. Such assertions may fall within the scope of the financial statement audit.

Risks of Material Misstatement at the Financial Statement Level (Ref: Para. 28(a) and 30)**Why the Auditor Identifies and Assesses Risks of Material Misstatement at the Financial Statement Level**

A193. The auditor identifies risks of material misstatement at the financial statement level to determine whether the risks have a pervasive effect on the financial statements, and would therefore require an overall response in accordance with ISA (NZ) 330.⁵¹

A194. In addition, risks of material misstatement at the financial statement level may also affect individual assertions, and identifying these risks may assist the auditor in assessing risks of material misstatement at the assertion level, and in designing further audit procedures to address the identified risks.

⁵¹ ISA (NZ) 330, paragraph 5

ISA (NZ) 315 (Revised 2019)

Identifying and Assessing Risks of Material Misstatement at the Financial Statement Level

- A195. Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole, and potentially affect many assertions. Risks of this nature are not necessarily risks identifiable with specific assertions at the class of transactions, account balance or disclosure level ~~(e.g., risk of management override of controls)~~. Rather, they represent circumstances that may pervasively increase the risks of material misstatement at the assertion level. The auditor's evaluation of whether risks identified relate pervasively to the financial statements supports the auditor's assessment of the risks of material misstatement at the financial statement level. In other cases, a number of assertions may also be identified as susceptible to the risk, and may therefore affect the auditor's risk identification and assessment of risks of material misstatement at the assertion level.

Example:

The entity faces operating losses and liquidity issues and is reliant on funding that has not yet been secured. In such a circumstance, the auditor may ~~determine-conclude~~ that management's use of the going concern basis of accounting gives rise to a risk of material misstatement at the financial statement level. In this situation, the accounting framework may need to be applied using a liquidation basis, which would likely affect all assertions pervasively.

- A196. The auditor's identification and assessment of risks of material misstatement at the financial statement level is influenced by the auditor's understanding of the entity's system of internal control, in particular the auditor's understanding of the control environment, the entity's risk assessment process and the entity's process to monitor the system of internal control, and:

- The outcome of the related evaluations required by paragraphs 21(b), 22(b), 24(c) and 25(c); and
- Any control deficiencies identified in accordance with paragraph 27.

In particular, risks at the financial statement level may arise from deficiencies in the control environment or from external events or conditions such as declining economic conditions.

- A197. Risks of material misstatement due to fraud may be particularly relevant to the auditor's consideration of the risks of material misstatement at the financial statement level.

Example:

The auditor understands from enquiries of management that the entity's financial statements are to be used in discussions with lenders in order to secure further financing to maintain working capital. The auditor may therefore determine that there is a greater susceptibility to misstatement due to fraud risk factors that affect inherent risk (i.e., the susceptibility of the financial statements to material misstatement because of the risk of fraudulent financial reporting, such as overstatement of assets and revenue and under-statement of liabilities and expenses to ensure that financing will be obtained).

ISA (NZ) 315 (Revised 2019)

A198. The auditor's understanding, including the related evaluations, of the control environment and other components of the system of internal control may raise doubts about the auditor's ability to obtain audit evidence on which to base the audit opinion or be cause for withdrawal from the engagement where withdrawal is possible under applicable law or regulation.

Examples:

- As a result of evaluating the entity's control environment, the auditor has concerns about the integrity of the entity's management, which may be so serious as to cause the auditor to conclude that the risk of intentional misrepresentation by management in the financial statements is such that an audit cannot be conducted.
- As a result of evaluating the entity's information system and communication, the auditor determines that significant changes in the IT environment have been poorly managed, with little oversight from management and those charged with governance. The auditor concludes that there are significant concerns about the condition and reliability of the entity's accounting records. In such circumstances, the auditor may determine that it is unlikely that sufficient appropriate audit evidence will be available to support an unmodified opinion on the financial statements.

A199. ISA (NZ) 705 (Revised)⁵² establishes requirements and provides guidance in determining whether there is a need for the auditor to express a qualified opinion or disclaim an opinion or, as may be required in some cases, to withdraw from the engagement where withdrawal is possible under applicable law or regulation.

Considerations Specific to Public Sector Entities

A200. For public sector entities, the identification of risks at the financial statement level may include consideration of matters related to the political climate, public interest and programme sensitivity.

Risks of Material Misstatement at the Assertion Level (Ref: Para. 28(b))

Appendix 2 sets out examples, in the context of inherent risk factors, of events or conditions that may indicate susceptibility to misstatement that may be material.

A201. Risks of material misstatements that do not relate pervasively to the financial statements are risks of material misstatement at the assertion level.

*Relevant Assertions and Significant Classes of Transactions, Account Balances and Disclosures (Ref: Para. 29)***Why Relevant Assertions and Significant Classes of Transactions, Account Balances and Disclosures Are Determined**

A202. Determining relevant assertions and the significant classes of transactions, account balances and disclosures provides the basis for the scope of the auditor's understanding

⁵² ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

ISA (NZ) 315 (Revised 2019)

of the entity's information system required to be obtained in accordance with paragraph 25(a). This understanding may further assist the auditor in identifying and assessing risks of material misstatement (see A86).

Automated Tools and Techniques

A203. The auditor may use automated techniques to assist in the identification of significant classes of transactions, account balances and disclosures.

Examples:

- An entire population of transactions may be analysed using automated tools and techniques to understand their nature, source, size and volume. By applying automated techniques, the auditor may, for example, identify that an account with a zero balance at period end was comprised of numerous offsetting transactions and journal entries occurring during the period, indicating that the account balance or class of transactions may be significant (e.g., a payroll clearing account). This same payroll clearing account may also identify expense reimbursements to management (and other employees), which could be a significant disclosure due to these payments being made to related parties.
- By analysing the flows of an entire population of revenue transactions, the auditor may more easily identify a significant class of transactions that had not previously been identified.

Disclosures that May Be Significant

A204. Significant disclosures include both quantitative and qualitative disclosures for which there is one or more relevant assertions. Examples of disclosures that have qualitative aspects and that may have relevant assertions and may therefore be considered significant by the auditor include disclosures about:

- Liquidity and debt covenants of an entity in financial distress.
- Events or circumstances that have led to the recognition of an impairment loss.
- Key sources of estimation uncertainty, including assumptions about the future.
- The nature of a change in accounting policy, and other relevant disclosures required by the applicable financial reporting framework, where, for example, new financial reporting requirements are expected to have a significant impact on the financial position and financial performance of the entity.
- Share-based payment arrangements, including information about how any amounts recognised were determined, and other relevant disclosures.
- Related parties, and related party transactions.
- Sensitivity analysis, including the effects of changes in assumptions used in the entity's valuation techniques intended to enable users to understand the underlying measurement uncertainty of a recorded or disclosed amount.

ISA (NZ) 315 (Revised 2019)*Assessing Risks of Material Misstatement at the Assertion Level*

Assessing Inherent Risk (Ref: Para. 31–33)

Assessing the likelihood and magnitude of misstatement (Ref: Para: 31)

Why the auditor assesses likelihood and magnitude of misstatement

- A205. The auditor assesses the likelihood and magnitude of misstatement for identified risks of material misstatement because the significance of the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement were the misstatement to occur determines where on the spectrum of inherent risk the identified risk is assessed, which informs the auditor's design of further audit procedures to address the risk.
- A206. Assessing the inherent risk of identified risks of material misstatement also assists the auditor in determining significant risks. The auditor determines significant risks because specific responses to significant risks are required in accordance with ISA (NZ) 330 and other ISAs (NZ).
- A207. Inherent risk factors influence the auditor's assessment of the likelihood and magnitude of misstatement for the identified risks of material misstatement at the assertion level. The greater the degree to which a class of transactions, account balance or disclosure is susceptible to material misstatement, the higher the inherent risk assessment is likely to be. Considering the degree to which inherent risk factors affect the susceptibility of an assertion to misstatement assists the auditor in appropriately assessing inherent risk for risks of material misstatement at the assertion level and in designing a more precise response to such a risk.

Spectrum of inherent risk

- A208. In assessing inherent risk, the auditor uses professional judgement in determining the significance of the combination of the likelihood and magnitude of a misstatement.
- A209. The assessed inherent risk relating to a particular risk of material misstatement at the assertion level represents a judgement within a range, from lower to higher, on the spectrum of inherent risk. The judgement about where in the range inherent risk is assessed may vary based on the nature, size and complexity of the entity, and takes into account the assessed likelihood and magnitude of the misstatement and inherent risk factors.
- A210. In considering the likelihood of a misstatement, the auditor considers the possibility that a misstatement may occur, based on consideration of the inherent risk factors.
- A211. In considering the magnitude of a misstatement, the auditor considers the qualitative and quantitative aspects of the possible misstatement (i.e., misstatements in assertions about classes of transactions, account balances or disclosures may be judged to be material due to size, nature or circumstances).
- A212. The auditor uses the significance of the combination of the likelihood and magnitude of a possible misstatement in determining where on the spectrum of inherent risk (i.e., the range) inherent risk is assessed. The higher the combination of likelihood and magnitude,

ISA (NZ) 315 (Revised 2019)

the higher the assessment of inherent risk; the lower the combination of likelihood and magnitude, the lower the assessment of inherent risk.

- A213. For a risk to be assessed as higher on the spectrum of inherent risk, it does not mean that both the magnitude and likelihood need to be assessed as high. Rather, it is the intersection of the magnitude and likelihood of the material misstatement on the spectrum of inherent risk that will determine whether the assessed inherent risk is higher or lower on the spectrum of inherent risk. A higher inherent risk assessment may also arise from different combinations of likelihood and magnitude, for example a higher inherent risk assessment could result from a lower likelihood but a very high magnitude.
- A214. In order to develop appropriate strategies for responding to risks of material misstatement, the auditor may designate risks of material misstatement within categories along the spectrum of inherent risk, based on their assessment of inherent risk. These categories may be described in different ways. Regardless of the method of categorisation used, the auditor's assessment of inherent risk is appropriate when the design and implementation of further audit procedures to address the identified risks of material misstatement at the assertion level is appropriately responsive to the assessment of inherent risk and the reasons for that assessment.

Pervasive Risks of Material Misstatement at the Assertion Level (Ref: Para 31(b))

- A215. In assessing the identified risks of material misstatement at the assertion level, the auditor may conclude that some risks of material misstatement relate more pervasively to the financial statements as a whole and potentially affect many assertions, in which case the auditor may update the identification of risks of material misstatement at the financial statement level.
- A216. In circumstances in which risks of material misstatement are identified as financial statement level risks due to their pervasive effect on a number of assertions, and are identifiable with specific assertions, the auditor is required to take into account those risks when assessing inherent risk for risks of material misstatement at the assertion level.

Considerations Specific to Public Sector Entities

- A217. In exercising professional judgement as to the assessment of the risk of material misstatement, public sector auditors may consider the complexity of the regulations and directives, and the risks of non-compliance with authorities.

Significant Risks (Ref: Para. 32)

Why significant risks are determined and the implications for the audit

- A218. The determination of significant risks allows for the auditor to focus more attention on those risks that are on the upper end of the spectrum of inherent risk, through the performance of certain required responses, including:
- Controls that address significant risks are required to be identified in accordance with paragraph 26(a)(i), with a requirement to evaluate whether the control has been designed effectively and implemented in accordance with paragraph 26(d).

ISA (NZ) 315 (Revised 2019)

- ISA (NZ) 330 requires controls that address significant risks to be tested in the current period (when the auditor intends to rely on the operating effectiveness of such controls) and substantive procedures to be planned and performed that are specifically responsive to the identified significant risk.⁵³
- ISA (NZ) 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of risk.⁵⁴
- ISA (NZ) 260 (Revised) requires communicating with those charged with governance about the significant risks identified by the auditor.⁵⁵
- ISA (NZ) 701 requires the auditor to take into account significant risks when determining those matters that required significant auditor attention, which are matters that may be key audit matters.⁵⁶
- Timely review of audit documentation by the engagement partner at the appropriate stages during the audit allows significant matters, including significant risks, to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report.⁵⁷
- ISA (NZ) 600 (Revised) requires the group auditor to evaluate the appropriateness of the design and performance of further audit procedures for areas of higher assessed risks of material misstatement of the group financial statements, or significant risks, on which a component auditor is determining the further audit procedures to be performed.⁵⁸

Determining significant risks

- A219. In determining significant risks, the auditor may first identify those assessed risks of material misstatement that have been assessed higher on the spectrum of inherent risk to form the basis for considering which risks may be close to the upper end. Being close to the upper end of the spectrum of inherent risk will differ from entity to entity, and will not necessarily be the same for an entity period on period. It may depend on the nature and circumstances of the entity for which the risk is being assessed.
- A220. The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgement, unless the risk is of a type specified to be treated as a significant risk in accordance with the requirements of another ISA (NZ). ISA (NZ) 240 provides further requirements and guidance in relation to the identification and assessment of the risks of material misstatement due to fraud.⁵⁹

⁵³ ISA (NZ) 330, paragraphs 15 and 21

⁵⁴ ISA (NZ) 330, paragraph 7(b)

⁵⁵ ISA (NZ) 260 (Revised), paragraph 15

⁵⁶ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraph 9

⁵⁷ ISA (NZ) 220 (Revised), paragraphs 32 and ~~A87A88-A89A90~~

⁵⁸ ISA (NZ) 600 (Revised), paragraph 42

⁵⁹ ISA (NZ) 240, paragraphs ~~26-2839-41~~

ISA (NZ) 315 (Revised 2019)**Example:**

- Cash at a supermarket retailer would ordinarily be determined to be a high likelihood of possible misstatement (due to the risk of cash being misappropriated), however the magnitude would typically be very low (due to the low levels of physical cash handled in the stores). The combination of these two factors on the spectrum of inherent risk would be unlikely to result in the existence of cash being determined to be a significant risk.
- An entity is in negotiations to sell a business segment. The auditor considers the effect on goodwill impairment, and may determine there is a higher likelihood of possible misstatement and a higher magnitude due to the impact of inherent risk factors of subjectivity, uncertainty and susceptibility to management bias or other fraud risk factors. This may result in goodwill impairment being determined to be a significant risk.

A221. The auditor also takes into the account the relative effects of inherent risk factors when assessing inherent risk. The lower the effect of inherent risk factors, the lower the assessed risk is likely to be. Risks of material misstatement that may be assessed as having higher inherent risk and may therefore be determined to be a significant risk, may arise from matters such as the following:

- Transactions for which there are multiple acceptable accounting treatments such that subjectivity is involved.
- Accounting estimates that have high estimation uncertainty or complex models.
- Complexity in data collection and processing to support account balances.
- Account balances or quantitative disclosures that involve complex calculations.
- Accounting principles that may be subject to differing interpretation.
- Changes in the entity's business that involve changes in accounting, for example, mergers and acquisitions.

Risks for Which Substantive Procedures Alone Do Not Provide Sufficient Appropriate Audit Evidence (Ref: Para. 33)

Why risks for which substantive procedures alone do not provide sufficient appropriate audit evidence are required to be identified

A222. Due to the nature of a risk of material misstatement, and the control activities that address that risk, in some circumstances the only way to obtain sufficient appropriate audit evidence is to test the operating effectiveness of controls. Accordingly, there is a requirement for the auditor to identify any such risks because of the implications for the design and performance of further audit procedures in accordance with ISA (NZ) 330 to address risks of material misstatement at the assertion level.

A223. Paragraph 26(a)(iii) also requires the identification of controls that address risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence

ISA (NZ) 315 (Revised 2019)

because the auditor is required, in accordance with ISA (NZ) 330,⁶⁰ to design and perform tests of such controls.

Determining risks for which substantive procedures alone do not provide sufficient appropriate audit evidence

A224. Where routine business transactions are subject to highly automated processing with little or no manual intervention, it may not be possible to perform only substantive procedures in relation to the risk. This may be the case in circumstances where a significant amount of an entity's information is initiated, recorded, processed, or reported only in electronic form such as in an information system that involves a high degree of integration across its IT applications. In such cases:

- Audit evidence may be available only in electronic form, and its sufficiency and appropriateness usually depend on the effectiveness of controls over its accuracy and completeness.
- The potential for improper initiation or alteration of information to occur and not be detected may be greater if appropriate controls are not operating effectively.

Example:

It is typically not possible to obtain sufficient appropriate audit evidence relating to revenue for a telecommunications entity based on substantive procedures alone. This is because the evidence of call or data activity does not exist in a form that is observable. Instead, substantial controls testing is typically performed to determine that the origination and completion of calls, and data activity is correctly captured (e.g., minutes of a call or volume of a download) and recorded correctly in the entity's billing system.

A225. ISA (NZ) 540 (Revised) provides further guidance related to accounting estimates about risks for which substantive procedures alone do not provide sufficient appropriate audit evidence.⁶¹ In relation to accounting estimates this may not be limited to automated processing, but may also be applicable to complex models.

Assessing Control Risk (Ref: Para. 34)

A226. The auditor's plans to test the operating effectiveness of controls is based on the expectation that controls are operating effectively, and this will form the basis of the auditor's assessment of control risk. The initial expectation of the operating effectiveness of controls is based on the auditor's evaluation of the design, and the determination of implementation, of the identified controls in the control activities component. Once the auditor has tested the operating effectiveness of the controls in accordance with ISA (NZ) 330, the auditor will be able to confirm the initial expectation about the operating effectiveness of controls. If the controls are not operating effectively as expected, then the auditor will need to revise the control risk assessment in accordance with paragraph 37.

⁶⁰ ISA (NZ) 330, paragraph 8

⁶¹ ISA (NZ) 540 (Revised), paragraphs A87–A89

ISA (NZ) 315 (Revised 2019)

- A227. The auditor's assessment of control risk may be performed in different ways depending on preferred audit techniques or methodologies, and may be expressed in different ways.
- A228. If the auditor plans to test the operating effectiveness of controls, it may be necessary to test a combination of controls to confirm the auditor's expectation that the controls are operating effectively. The auditor may plan to test both direct and indirect controls, including general IT controls, and, if so, take into account the combined expected effect of the controls when assessing control risk. To the extent that the control to be tested does not fully address the assessed inherent risk, the auditor determines the implications on the design of further audit procedures to reduce audit risk to an acceptably low level.
- A229. When the auditor plans to test the operating effectiveness of an automated control, the auditor may also plan to test the operating effectiveness of the relevant general IT controls that support the continued functioning of that automated control to address the risks arising from the use of IT, and to provide a basis for the auditor's expectation that the automated control operated effectively throughout the period. When the auditor expects related general IT controls to be ineffective, this determination may affect the auditor's assessment of control risk at the assertion level and the auditor's further audit procedures may need to include substantive procedures to address the applicable risks arising from the use of IT. Further guidance about the procedures that the auditor may perform in these circumstances is provided in ISA (NZ) 330.⁶²

*Evaluating the Audit Evidence Obtained from the Risk Assessment Procedures (Ref: Para 35)***Why the Auditor Evaluates the Audit Evidence from the Risk Assessment Procedures**

- A230. Audit evidence obtained from performing risk assessment procedures provides the basis for the identification and assessment of the risks of material misstatement. This provides the basis for the auditor's design of the nature, timing and extent of further audit procedures responsive to the assessed risks of material misstatement, at the assertion level, in accordance with ISA (NZ) 330. Accordingly, the audit evidence obtained from the risk assessment procedures provides a basis for the identification and assessment of risks of material misstatement whether due to fraud or error, at the financial statement and assertion levels.

The Evaluation of the Audit Evidence

- A231. Audit evidence from risk assessment procedures comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.⁶³

Professional Scepticism

- A232. In evaluating the audit evidence from the risk assessment procedures, the auditor considers whether sufficient understanding about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control has been obtained to be able to identify the risks of material misstatement, as well as whether

⁶² ISA (NZ) 330, paragraphs A29–A30

⁶³ ISA (NZ) 500, paragraph A5

ISA (NZ) 315 (Revised 2019)

there is any evidence that is contradictory that may indicate a risk of material misstatement.

Classes of Transactions, Account Balances and Disclosures that Are Not Significant, but Which Are Material (Ref: Para. 36)

A233. As explained in ISA (NZ) 320,⁶⁴ materiality and audit risk are considered when identifying and assessing the risks of material misstatement in classes of transactions, account balances and disclosures. The auditor's determination of materiality is a matter of professional judgement, and is affected by the auditor's perception of the financial information needs of users of the financial statements.⁶⁵ For the purpose of this ISA (NZ) and paragraph 18 of ISA (NZ) 330, classes of transactions, account balances or disclosures are material if omitting, misstating or obscuring information about them could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole.

A234. There may be classes of transactions, account balances or disclosures that are material but have not been determined to be significant classes of transactions, account balances or disclosures (i.e., there are no relevant assertions identified).

Example:

The entity may have a disclosure about executive compensation for which the auditor has not identified a risk of material misstatement. However, the auditor may determine that this disclosure is material based on the considerations in paragraph A233.

A235. Audit procedures to address classes of transactions, account balances or disclosures that are material but are not determined to be significant are addressed in ISA (NZ) 330.⁶⁶ When a class of transactions, account balance or disclosure is determined to be significant as required by paragraph 29, the class of transactions, account balance or disclosure is also a material class of transactions, account balance or disclosure for the purposes of paragraph 18 of ISA (NZ) 330.

Revision of Risk Assessment (Ref: Para. 37)

A236. During the audit, new or other information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based.

⁶⁴ ISA (NZ) 320, paragraph A1

⁶⁵ ISA (NZ) 320, paragraph 4

⁶⁶ ISA (NZ) 330, paragraph 18

ISA (NZ) 315 (Revised 2019)**Example:**

The entity's risk assessment may be based on an expectation that certain controls are operating effectively. In performing tests of those controls, the auditor may obtain audit evidence that they were not operating effectively at relevant times during the audit. Similarly, in performing substantive procedures the auditor may detect misstatements in amounts or frequency greater than is consistent with the auditor's risk assessments. In such circumstances, the risk assessment may not appropriately reflect the true circumstances of the entity and the further planned audit procedures may not be effective in detecting material misstatements. Paragraphs 16 and 17 of ISA (NZ) 330 provide further guidance about evaluating the operating effectiveness of controls.

Documentation (Ref: Para. 38)

A237. For recurring audits, certain documentation may be carried forward, updated as necessary to reflect changes in the entity's business or processes.

A238. ISA (NZ) 230 notes that, among other considerations, although there may be no single way in which the auditor's exercise of professional scepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional scepticism.⁶⁷ For example, when the audit evidence obtained from risk assessment procedures includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgements made in evaluating whether the audit evidence provides an appropriate basis for the auditor's identification and assessment of the risks of material misstatement. Examples of other requirements in this ISA (NZ) for which documentation may provide evidence of the exercise of professional scepticism by the auditor include:

- Paragraph 13, which requires the auditor to design and perform risk assessment procedures in a manner that is not biased towards obtaining audit evidence that may corroborate the existence of risks or towards excluding audit evidence that may contradict the existence of risks;
- Paragraph 17, which requires a discussion among key engagement team members of the application of the applicable financial reporting framework and the susceptibility of the entity's financial statements to material misstatement;
- Paragraphs 19(b) and 20, which require the auditor to obtain an understanding of the reasons for any changes to the entity's accounting policies and to evaluate whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework;
- Paragraphs 21(b), 22(b), 23(b), 24(c), 25(c), 26(d) and 27, which require the auditor to evaluate, based on the required understanding obtained, whether the components of the entity's system of internal control are appropriate to the entity's circumstances

⁶⁷ ISA (NZ) 230, paragraph A7

ISA (NZ) 315 (Revised 2019)

considering the nature and complexity of the entity, and to determine whether one of more control deficiencies have been identified;

- Paragraph 35, which requires the auditor to take into account all audit evidence obtained from the risk assessment procedures, whether corroborative or contradictory to assertions made by management, and to evaluate whether the audit evidence obtained from the risk assessment procedures provides an appropriate basis for the identification and assessment of the risks of material misstatement; and
- Paragraph 36, which requires the auditor to evaluate, when applicable, whether the auditor's determination that there are no risks of material misstatement for a material class of transactions, account balance or disclosure remains appropriate.

Scalability

- A239. The manner in which the requirements of paragraph 38 are documented is for the auditor to determine using professional judgement.
- A240. More detailed documentation, that is sufficient to enable an experienced auditor, having no previous experience with the audit, to understand the nature, timing and extent of the audit procedures performed, may be required to support the rationale for difficult judgements made.
- A241. For the audits of less complex entities, the form and extent of documentation may be simple and relatively brief. The form and extent of the auditor's documentation is influenced by the nature, size and complexity of the entity and its system of internal control, availability of information from the entity and the audit methodology and technology used in the course of the audit. It is not necessary to document the entirety of the auditor's understanding of the entity and matters related to it. Key elements⁶⁸ of understanding documented by the auditor may include those on which the auditor based the assessment of the risks of material misstatement. However, the auditor is not required to document every inherent risk factor that was taken into account in identifying and assessing the risks of material misstatement at the assertion level.

Example:

In audits of less complex entities audit documentation may be incorporated in the auditor's documentation of the overall strategy and audit plan.⁶⁹ Similarly, for example, the results of the risk assessment may be documented separately, or may be documented as part of the auditor's documentation of further audit procedures.⁷⁰

⁶⁸ ISA (NZ) 230, paragraph 8

⁶⁹ ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraphs 7, 9 and A12

⁷⁰ ISA (NZ) 330, paragraph 28

ISA (NZ) 315 (Revised 2019)**Appendix 1**

(Ref: Para. A61–A67)

Considerations for Understanding the Entity and its Business Model

This appendix explains the objectives and scope of the entity's business model and provides examples of matters that the auditor may consider in understanding the activities of the entity that may be included in the business model. The auditor's understanding of the entity's business model, and how it is affected by its business strategy and business objectives, may assist the auditor in identifying business risks that may have an effect on the financial statements. In addition, this may assist the auditor in identifying risks of material misstatement.

Objectives and Scope of an Entity's Business Model

1. An entity's business model describes how an entity considers, for example its organisational structure, operations or scope of activities, business lines (including competitors and customers thereof), processes, growth opportunities, globalisation, regulatory requirements and technologies. The entity's business model describes how the entity creates, preserves and captures financial or broader value, for its stakeholders.
2. Strategies are the approaches by which management plans to achieve the entity's objectives, including how the entity plans to address the risks and opportunities that it faces. An entity's strategies are changed over time by management, to respond to changes in its objectives and in the internal and external circumstances in which it operates.
3. A description of a business model typically includes:
 - The scope of the entity's activities, and why it does them.
 - The entity's structure and scale of its operations.
 - The markets or geographical or demographic spheres, and parts of the value chain, in which it operates, how it engages with those markets or spheres (main products, customer segments and distribution methods), and the basis on which it competes.
 - The entity's business or operating processes (e.g., investment, financing and operating processes) employed in performing its activities, focusing on those parts of the business processes that are important in creating, preserving or capturing value.
 - The resources (e.g., financial, human, intellectual, environmental and technological) and other inputs and relationships (e.g., customers, competitors, suppliers and employees) that are necessary or important to its success.
 - How the entity's business model integrates the use of IT in its interactions with customers, suppliers, lenders and other stakeholders through IT interfaces and other technologies.
4. A business risk may have an immediate consequence for the risk of material misstatement for classes of transactions, account balances, and disclosures at the assertion level or the financial statement level. For example, the business risk arising from a significant fall in real estate market values may increase the risk of material misstatement associated with the valuation assertion for a lender of medium-term real estate backed loans. However, the same

ISA (NZ) 315 (Revised 2019)

risk, particularly in combination with a severe economic downturn that concurrently increases the underlying risk of lifetime credit losses on its loans, may also have a longer-term consequence. The resulting net exposure to credit losses may indicate an event or condition that may cast significant doubt on the entity's ability to continue as a going concern. If so, this could have implications for management's, and the auditor's, conclusion as to the appropriateness of the entity's use of the going concern basis of accounting, and determination conclusion as to whether a material uncertainty exists. Whether a business risk may result in a risk of material misstatement is, therefore, considered in light of the entity's circumstances. Examples of events and conditions that may give rise to the existence of risks of material misstatement are indicated in **Appendix 2**.

Activities of the Entity

5. Examples of matters that the auditor may consider when obtaining an understanding of the activities of the entity (included in the entity's business model) include:
 - (a) Business operations such as:
 - Nature of revenue sources, products or services, and markets, including involvement in electronic commerce such as Internet sales and marketing activities.
 - Conduct of operations (for example, stages and methods of production, or activities exposed to environmental risks).
 - Alliances, joint ventures, and outsourcing activities.
 - Geographic dispersion and industry segmentation.
 - Location of production facilities, warehouses, and offices, and location and quantities of inventories.
 - Key customers and important suppliers of goods and services, employment arrangements (including the existence of union contracts, pension and other post-employment benefits, share option or incentive bonus arrangements, and government regulation related to employment matters).
 - Research and development activities and expenditures.
 - Transactions with related parties.
 - (b) Investments and investment activities such as:
 - Planned or recently executed acquisitions or divestitures.
 - Investments and dispositions of securities and loans.
 - Capital investment activities.
 - Investments in non-consolidated entities, including non-controlled partnerships, joint ventures and non-controlled special-purpose entities.
 - (c) Financing and financing activities such as:
 - Ownership structure of major subsidiaries and associated entities, including consolidated and non-consolidated structures.

ISA (NZ) 315 (Revised 2019)

- Debt structure and related terms, including off-balance-sheet financing arrangements and leasing arrangements.
- Beneficial owners (for example, local, foreign, business reputation and experience) and related parties.
- Use of derivative financial instruments.

Nature of Special-Purpose Entities

6. A special-purpose entity (sometimes referred to as a special-purpose vehicle) is an entity that is generally established for a narrow and well-defined purpose, such as to effect a lease or a securitisation of financial assets, or to carry out research and development activities. It may take the form of a corporation, trust, partnership or unincorporated entity. The entity on behalf of which the special-purpose entity has been created may often transfer assets to the latter (for example, as part of a derecognition transaction involving financial assets), obtain the right to use the latter's assets, or perform services for the latter, while other parties may provide the funding to the latter. As ISA (NZ) 550 indicates, in some circumstances, a special-purpose entity may be a related party of the entity.⁷¹
7. Financial reporting frameworks often specify detailed conditions that are deemed to amount to control, or circumstances under which the special-purpose entity should be considered for consolidation. The interpretation of the requirements of such frameworks often demands a detailed knowledge of the relevant agreements involving the special-purpose entity.

⁷¹ ISA (NZ) 550, paragraph A7

ISA (NZ) 315 (Revised 2019)

Appendix 2

(Ref: Para. 12(f), 19(c), A7–A8, A85–A89)

Understanding Inherent Risk Factors

This appendix provides further explanation about the inherent risk factors, as well as matters that the auditor may consider in understanding and applying the inherent risk factors in identifying and assessing the risks of material misstatement at the assertion level.

The Inherent Risk Factors

1. Inherent risk factors are characteristics of events or conditions that affect susceptibility of an assertion about a class of transactions, account balance or disclosure, to misstatement, whether due to fraud or error, and before consideration of controls. Such factors may be qualitative or quantitative, and include complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors⁷² insofar as they affect inherent risk. In obtaining the understanding of the entity and its environment, and the applicable financial reporting framework and the entity's accounting policies, in accordance with paragraphs 19(a)–(b), the auditor also understands how inherent risk factors affect susceptibility of assertions to misstatement in the preparation of the financial statements.
2. Inherent risk factors relating to the preparation of information required by the applicable financial reporting framework (referred to in this paragraph as “required information”) include:
 - *Complexity*—arises either from the nature of the information or in the way that the required information is prepared, including when such preparation processes are more inherently difficult to apply. For example, complexity may arise:
 - In calculating supplier rebate provisions because it may be necessary to take into account different commercial terms with many different suppliers, or many interrelated commercial terms that are all relevant in calculating the rebates due; or
 - When there are many potential data sources, with different characteristics used in making an accounting estimate, the processing of that data involves many inter-related steps, and the data is therefore inherently more difficult to identify, capture, access, understand or process.
 - *Subjectivity*—arises from inherent limitations in the ability to prepare required information in an objective manner, due to limitations in the availability of knowledge or information, such that management may need to make an election or subjective judgement about the appropriate approach to take and about the resulting information to include in the financial statements. Because of different approaches to preparing the required information, different outcomes could result from appropriately applying the requirements of the applicable financial reporting framework. As limitations in knowledge or data increase, the subjectivity in the judgements that could be made by

⁷² ISA (NZ) 240, paragraphs ~~A24–A27~~ A24–A26

ISA (NZ) 315 (Revised 2019)

reasonably knowledgeable and independent individuals, and the diversity in possible outcomes of those judgements, will also increase.

- *Change*—results from events or conditions that, over time, affect the entity’s business or the economic, accounting, regulatory, industry or other aspects of the environment in which it operates, when the effects of those events or conditions are reflected in the required information. Such events or conditions may occur during, or between, financial reporting periods. For example, change may result from developments in the requirements of the applicable financial reporting framework, or in the entity and its business model, or in the environment in which the entity operates. Such change may affect management’s assumptions and judgements, including as they relate to management’s selection of accounting policies or how accounting estimates are made or related disclosures are determined.
 - *Uncertainty*—arises when the required information cannot be prepared based only on sufficiently precise and comprehensive data that is verifiable through direct observation. In these circumstances, an approach may need to be taken that applies the available knowledge to prepare the information using sufficiently precise and comprehensive observable data, to the extent available, and reasonable assumptions supported by the most appropriate available data, when it is not. Constraints on the availability of knowledge or data, which are not within the control of management (subject to cost constraints where applicable) are sources of uncertainty and their effect on the preparation of the required information cannot be eliminated. For example, estimation uncertainty arises when the required monetary amount cannot be determined with precision and the outcome of the estimate is not known before the date the financial statements are finalised.
 - *Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk*—susceptibility to management bias results from conditions that create susceptibility to intentional or unintentional failure by management to maintain neutrality in preparing the information. Management bias is often associated with certain conditions that have the potential to give rise to management not maintaining neutrality in exercising judgement (indicators of potential management bias), which could lead to a material misstatement of the information that would be fraudulent if intentional. Such indicators include incentives or pressures insofar as they affect inherent risk (for example, as a result of motivation to achieve a desired result, such as a desired profit target or capital ratio), and opportunity, not to maintain neutrality. Factors relevant to the susceptibility to misstatement due to fraud in the form of fraudulent financial reporting or misappropriation of assets are described in paragraphs ~~A1-A2~~to ~~A5-A6~~of ISA (NZ) 240.
3. When complexity is an inherent risk factor, there may be an inherent need for more complex processes in preparing the information, and such processes may be inherently more difficult to apply. As a result, applying them may require specialised skills or knowledge, and may require the use of a management’s expert.
 4. When management judgement is more subjective, the susceptibility to misstatement due to management bias, whether unintentional or intentional, may also increase. For example, significant management judgement may be involved in making accounting estimates that

ISA (NZ) 315 (Revised 2019)

have been identified as having high estimation uncertainty, and conclusions regarding methods, data and assumptions may reflect unintentional or intentional management bias.

Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement

5. The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement in the financial statements, at the financial statement level or the assertion level. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every audit engagement and the list of examples is not necessarily complete. The events and conditions have been categorised by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degrees.

Relevant Inherent Risk Factor:	Examples of Events or Conditions That May Indicate the Existence of Risks of Material Misstatement at the Assertion Level:
Complexity	Regulatory: • Operations that are subject to a high degree of complex regulation. Business model: • The existence of complex alliances and joint ventures. Applicable financial reporting framework: • Accounting measurements that involve complex processes. Transactions: • Use of off-balance sheet finance, special-purpose entities, and other complex financing arrangements.
Subjectivity	Applicable financial reporting framework: • A wide range of possible measurement criteria of an accounting estimate. For example, management's recognition of depreciation or construction income and expenses. • Management's selection of a valuation technique or model for a non-current asset, such as investment properties.
Change	Economic conditions: • Operations in regions that are economically unstable, for example, countries with significant currency devaluation or highly inflationary economies. Markets:

ISA (NZ) 315 (Revised 2019)

Relevant Inherent Risk Factor:	Examples of Events or Conditions That May Indicate the Existence of Risks of Material Misstatement at the Assertion Level:
	• Operations exposed to volatile markets, for example, futures trading. Customer loss: • Going concern and liquidity issues including loss of significant customers. Industry model: • Changes in the industry in which the entity operates. Business model: • Changes in the supply chain. • Developing or offering new products or services, or moving into new lines of business. Geography: • Expanding into new locations. Entity structure: • Changes in the entity such as large acquisitions or reorganisations or other unusual events. • Entities or business segments likely to be sold. Human resources competence: • Changes in key personnel including departure of key executives. IT: • Changes in the IT environment. • Installation of significant new IT systems related to financial reporting. Applicable financial reporting framework: • Application of new accounting pronouncements. Capital: • New constraints on the availability of capital and credit. Regulatory: • Inception of investigations into the entity's operations or financial results by regulatory or government bodies. • Impact of new legislation related to environmental protection.

ISA (NZ) 315 (Revised 2019)

Relevant Inherent Risk Factor:	Examples of Events or Conditions That May Indicate the Existence of Risks of Material Misstatement at the Assertion Level:
Uncertainty	Reporting: - Events or transactions that involve significant measurement uncertainty, including accounting estimates, and related disclosures. - Pending litigation and contingent liabilities, for example, sales warranties, financial guarantees and environmental remediation.
Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk	Reporting: - Opportunities for management and employees to engage in fraudulent financial reporting, including omission, or obscuring, of significant information in disclosures. Transactions: - Significant transactions with related parties. - Significant amount of non-routine or non-systematic transactions including intercompany transactions and large revenue transactions at period end. - Transactions that are recorded based on management's intent, for example, debt refinancing, assets to be sold and classification of marketable securities.

Other events or conditions that may indicate risks of material misstatement at the financial statement level:

- Lack of personnel with appropriate accounting and financial reporting skills.
- Control deficiencies – particularly in the control environment, risk assessment process and process for monitoring, and especially those not addressed by management.
- Past misstatements, history of errors or a significant amount of adjustments at period end.

ISA (NZ) 315 (Revised 2019)

Appendix 3

(Ref: Para. 12(m), 21–26, A90–A181)

Understanding the Entity's System of Internal Control

1. The entity's system of internal control may be reflected in policy and procedures manuals, systems and forms, and the information embedded therein, and is effected by people. The entity's system of internal control is implemented by management, those charged with governance, and other personnel based on the structure of the entity. The entity's system of internal control can be applied, based on the decisions of management, those charged with governance or other personnel and in the context of legal or regulatory requirements, to the operating model of the entity, the legal entity structure, or a combination of these.
2. This appendix further explains the components of, as well as the limitations of, the entity's system of internal control as set out in paragraphs 12(m), 21–26, and A90–A181, as they relate to a financial statement audit.
3. Included within the entity's system of internal control are aspects that relate to the entity's reporting objectives, including its financial reporting objectives, but it may also include aspects that relate to its operations or compliance objectives, when such aspects are relevant to financial reporting.

Example:

Controls over compliance with laws and regulations may be relevant to financial reporting when such controls are relevant to the entity's preparation of disclosures of contingencies in the financial statements.

Components of the Entity's System of Internal Control*Control Environment*

4. The control environment includes the governance and management functions and the attitudes, awareness, and actions of those charged with governance and management concerning the entity's system of internal control, and its importance in the entity. The control environment sets the tone of an organisation, influencing the control consciousness of its people, and provides the overall foundation for the operation of the other components of the entity's system of internal control.
5. An entity's control consciousness is influenced by those charged with governance, because one of their roles is to counterbalance pressures on management in relation to financial reporting that may arise from market demands or remuneration schemes. The effectiveness of the design of the control environment in relation to participation by those charged with governance is therefore influenced by such matters as:
 - Their independence from management and their ability to evaluate the actions of management.
 - Whether they understand the entity's business transactions.

ISA (NZ) 315 (Revised 2019)

- The extent to which they evaluate whether the financial statements are prepared in accordance with the applicable financial reporting framework, including whether the financial statements include adequate disclosures.
6. The control environment encompasses the following elements:
- (a) *How management's responsibilities are carried out, such as creating and maintaining the entity's culture and demonstrating management's commitment to integrity and ethical values.* The effectiveness of controls cannot rise above the integrity and ethical values of the people who create, administer, and monitor them. Integrity and ethical behaviour are the product of the entity's ethical and behavioural standards or codes of conduct, how they are communicated (e.g., through policy statements), and how they are reinforced in practice (e.g., through management actions to eliminate or mitigate incentives or temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts). The communication of entity policies on integrity and ethical values may include the communication of behavioural standards to personnel through policy statements and codes of conduct and by example.
 - (b) *When those charged with governance are separate from management, how those charged with governance demonstrate independence from management and exercise oversight of the entity's system of internal control.* An entity's control consciousness is influenced by those charged with governance. Considerations may include whether there are sufficient individuals who are independent from management and objective in their evaluations and decision-making; how those charged with governance identify and accept oversight responsibilities and whether those charged with governance retain oversight responsibility for management's design, implementation and conduct of the entity's system of internal control. The importance of the responsibilities of those charged with governance is recognised in codes of practice and other laws and regulations or guidance produced for the benefit of those charged with governance. Other responsibilities of those charged with governance include oversight of the design and effective operation of ~~whistle-blower procedures~~ the entity's whistleblower program (or other program to report fraud).
 - (c) *How the entity assigns authority and responsibility in pursuit of its objectives.* This may include considerations about:
 - Key areas of authority and responsibility and appropriate lines of reporting;
 - Policies relating to appropriate business practices, knowledge and experience of key personnel, and resources provided for carrying out duties; and
 - Policies and communications directed at ensuring that all personnel understand the entity's objectives, know how their individual actions interrelate and contribute to those objectives, and recognise how and for what they will be held accountable.
 - (d) *How the entity attracts, develops, and retains competent individuals in alignment with its objectives.* This includes how the entity ensures the individuals have the knowledge and skills necessary to accomplish the tasks that define the individual's job, such as:

ISA (NZ) 315 (Revised 2019)

- Standards for recruiting the most qualified individuals – with an emphasis on educational background, prior work experience, past accomplishments, and evidence of integrity and ethical behaviour.
 - Training policies that communicate prospective roles and responsibilities, including practices such as training schools and seminars that illustrate expected levels of performance and behaviour; and
 - Periodic performance appraisals driving promotions that demonstrate the entity's commitment to the advancement of qualified personnel to higher levels of responsibility.
- (e) *How the entity holds individuals accountable for their responsibilities in pursuit of the objectives of the entity's system of internal control.* This may be accomplished through, for example:
- Mechanisms to communicate and hold individuals accountable for performance of controls responsibilities and implement corrective actions as necessary;
 - Establishing performance measures, incentives and rewards for those responsible for the entity's system of internal control, including how the measures are evaluated and maintain their relevance;
 - How pressures associated with the achievement of control objectives impact the individual's responsibilities and performance measures; and
 - How the individuals are disciplined as necessary.

The appropriateness of the above matters will be different for every entity depending on its size, the complexity of its structure and the nature of its activities.

The Entity's Risk Assessment Process

7. The entity's risk assessment process is an iterative process for identifying and analysing risks to achieving the entity's objectives, and forms the basis for how management or those charged with governance determine the risks to be managed.
8. For financial reporting purposes, the entity's risk assessment process includes how management identifies business risks relevant to the preparation of financial statements in accordance with the entity's applicable financial reporting framework, estimates their significance, assesses the likelihood of their occurrence, and decides upon actions to manage them and the results thereof. For example, the entity's risk assessment process may address how the entity considers the possibility of unrecorded transactions or identifies and analyses significant estimates recorded in the financial statements.
9. Risks relevant to reliable financial reporting include external and internal events, transactions or circumstances that may occur and adversely affect an entity's ability to initiate, record, process, and report financial information consistent with the assertions of management in the financial statements. Management may initiate plans, programmes, or actions to address specific risks or it may decide to assume a risk because of cost or other considerations. Risks can arise or change due to circumstances such as the following:

ISA (NZ) 315 (Revised 2019)

- *Changes in operating environment.* Changes in the regulatory, economic or operating environment can result in changes in competitive pressures and significantly different risks.
- *New personnel.* New personnel may have a different focus on or understanding of the entity's system of internal control.
- *New or revamped information system.* Significant and rapid changes in the information system can change the risk relating to the entity's system of internal control.
- *Rapid growth.* Significant and rapid expansion of operations can strain controls and increase the risk of a breakdown in controls.
- *New technology.* Incorporating new technologies into production processes or the information system may change the risk associated with the entity's system of internal control.
- *New business models, products, or activities.* Entering into business areas or transactions with which an entity has little experience may introduce new risks associated with the entity's system of internal control.
- *Corporate restructurings.* Restructurings may be accompanied by staff reductions and changes in supervision and segregation of duties that may change the risk associated with the entity's system internal control.
- *Expanded foreign operations.* The expansion or acquisition of foreign operations carries new and often unique risks that may affect internal control, for example, additional or changed risks from foreign currency transactions.
- *New accounting pronouncements.* Adoption of new accounting principles or changing accounting principles may affect risks in preparing financial statements.
- *Use of IT.* Risks relating to:
 - Maintaining the integrity of data and information processing;
 - Risks to the entity business strategy that arise if the entity's IT strategy does not effectively support the entity's business strategy; or
 - Changes or interruptions in the entity's IT environment or turnover of IT personnel or when the entity does not make necessary updates to the IT environment or such updates are not timely.

The Entity's Process to Monitor the System of Internal Control

10. The entity's process to monitor the system of internal control is a continual process to evaluate the effectiveness of the entity's system of internal control, and to take necessary remedial actions on a timely basis. The entity's process to monitor the entity's system of internal control may consist of ongoing activities, separate evaluations (conducted periodically), or some combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and may include regular management and supervisory activities. The entity's process will likely vary in scope and frequency depending on the assessment of the risks by the entity.

ISA (NZ) 315 (Revised 2019)

11. The objectives and scope of internal audit functions typically include activities designed to evaluate or monitor the effectiveness of the entity's system of internal control.⁷³ The entity's process to monitor the entity's system of internal control may include activities such as management's review of whether bank reconciliations are being prepared on a timely basis, internal auditors' evaluation of sales personnel's compliance with the entity's policies on terms of sales contracts, and a legal department's oversight of compliance with the entity's ethical or business practice policies. Monitoring is done also to ensure that controls continue to operate effectively over time. For example, if the timeliness and accuracy of bank reconciliations are not monitored, personnel are likely to stop preparing them.
12. Controls related to the entity's process to monitor the entity's system of internal control, including those that monitor underlying automated controls, may be automated or manual, or a combination of both. For example, an entity may use automated monitoring controls over access to certain technology with automated reports of unusual activity to management, who manually investigate identified anomalies.
13. When distinguishing between a monitoring activity and a control related to the information system, the underlying details of the activity are considered, especially when the activity involves some level of supervisory review. Supervisory reviews are not automatically classified as monitoring activities and it may be a matter of judgement whether a review is classified as a control related to the information system or a monitoring activity. For example, the intent of a monthly completeness control would be to detect and correct errors, where a monitoring activity would ask why errors are occurring and assign management the responsibility of fixing the process to prevent future errors. In simple terms, a control related to the information system responds to a specific risk, whereas a monitoring activity assesses whether controls within each of the five components of the entity's system of internal control are operating as intended.
14. Monitoring activities may include using information from communications from external parties that may indicate problems or highlight areas in need of improvement. Customers implicitly corroborate billing data by paying their invoices or complaining about their charges. In addition, regulators may communicate with the entity concerning matters that affect the functioning of the entity's system of internal control, for example, communications concerning examinations by bank regulatory agencies. Also, management may consider in performing monitoring activities any communications relating to the entity's system of internal control from external auditors.

The Information System and Communication

15. The information system relevant to the preparation of the financial statements consists of activities and policies, and accounting and supporting records, designed and established to:
 - Initiate, record and process entity transactions (as well as to capture, process and disclose information about events and conditions other than transactions) and to maintain accountability for the related assets, liabilities and equity;

⁷³ ISA (NZ) 610 (Revised) and Appendix 4 of this ISA (NZ) provides further guidance related to internal audit.

ISA (NZ) 315 (Revised 2019)

- Resolve incorrect processing of transactions, for example, automated suspense files and procedures followed to clear suspense items out on a timely basis;
 - Process and account for system overrides or bypasses to controls;
 - Incorporate information from transaction processing in the general ledger (e.g., transferring of accumulated transactions from a subsidiary ledger);
 - Capture and process information relevant to the preparation of the financial statements for events and conditions other than transactions, such as the depreciation and amortisation of assets and changes in the recoverability of assets; and
 - Ensure information required to be disclosed by the applicable financial reporting framework is accumulated, recorded, processed, summarised and appropriately reported in the financial statements.
16. An entity's business processes include the activities designed to:
- Develop, purchase, produce, sell and distribute an entity's products and services;
 - Ensure compliance with laws and regulations; and
 - Record information, including accounting and financial reporting information.
- Business processes result in the transactions that are recorded, processed and reported by the information system.
17. The quality of information affects management's ability to make appropriate decisions in managing and controlling the entity's activities and to prepare reliable financial reports.
18. Communication, which involves providing an understanding of individual roles and responsibilities pertaining to the entity's system of internal control, may take such forms as policy manuals, accounting and financial reporting manuals, and memoranda. Communication also can be made electronically, orally, and through the actions of management.
19. Communication by the entity of the financial reporting roles and responsibilities and of significant matters relating to financial reporting involves providing an understanding of individual roles and responsibilities pertaining to the entity's system of internal control relevant to financial reporting. It may include such matters as the extent to which personnel understand how their activities in the information system relate to the work of others and the means of reporting exceptions to an appropriate higher level within the entity.

Control Activities

20. Controls in the control activities component are identified in accordance with paragraph 26. Such controls include information processing controls and general IT controls, both of which may be manual or automated in nature. The greater the extent of automated controls, or controls involving automated aspects, that management uses and relies on in relation to its financial reporting, the more important it may become for the entity to implement general IT controls that address the continued functioning of the automated aspects of information processing controls. Controls in the control activities component may pertain to the following:

ISA (NZ) 315 (Revised 2019)

- *Authorisation and approvals.* An authorisation affirms that a transaction is valid (i.e., it represents an actual economic event or is within an entity's policy). An authorisation typically takes the form of an approval by a higher level of management or of verification and a determination if the transaction is valid. For example, a supervisor approves an expense report after reviewing whether the expenses seem reasonable and within policy. An example of an automated approval is when an invoice unit cost is automatically compared with the related purchase order unit cost within a pre-established tolerance level. Invoices within the tolerance level are automatically approved for payment. Those invoices outside the tolerance level are flagged for additional investigation.
- *Reconciliations* – Reconciliations compare two or more data elements. If differences are identified, action is taken to bring the data into agreement. Reconciliations generally address the completeness or accuracy of processing transactions.
- *Verifications* – Verifications compare two or more items with each other or compare an item with a policy, and will likely involve a follow-up action when the two items do not match or the item is not consistent with policy. Verifications generally address the completeness, accuracy, or validity of processing transactions.
- *Physical or logical controls, including those that address security of assets against unauthorised access, acquisition, use or disposal.* Controls that encompass:
 - The physical security of assets, including adequate safeguards such as secured facilities over access to assets and records.
 - The authorisation for access to computer programs and data files (i.e., logical access).
 - The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash, security and inventory counts with accounting records).

The extent to which physical controls intended to prevent theft of assets are relevant to the reliability of financial statement preparation depends on circumstances such as when assets are highly susceptible to misappropriation.

- *Segregation of duties.* Assigning different people the responsibilities of authorising transactions, recording transactions, and maintaining custody of assets. Segregation of duties is intended to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of the person's duties.

For example, a manager authorising credit sales is not responsible for maintaining accounts receivable records or handling cash receipts. If one person is able to perform all these activities the person could, for example, create a fictitious sale that could go undetected. Similarly, salespersons should not have the ability to modify product price files or commission rates.

Sometimes segregation is not practical, cost effective, or feasible. For example, smaller and less complex entities may lack sufficient resources to achieve ideal segregation, and the cost of hiring additional staff may be prohibitive. In these situations, management may institute alternative controls. In the example above, if the salesperson

ISA (NZ) 315 (Revised 2019)

can modify product price files, a detective control activity can be put in place to have personnel unrelated to the sales function periodically review whether and under what circumstances the salesperson changed prices.

21. Certain controls may depend on the existence of appropriate supervisory controls established by management or those charged with governance. For example, authorisation controls may be delegated under established guidelines, such as investment criteria set by those charged with governance; alternatively, non-routine transactions such as major acquisitions or divestments may require specific high-level approval, including in some cases that of shareholders.

Limitations of Internal Control

22. The entity's system of internal control, no matter how effective, can provide an entity with only reasonable assurance about achieving the entity's financial reporting objectives. The likelihood of their achievement is affected by the inherent limitations of internal control. These include the realities that human judgement in decision-making can be faulty and that breakdowns in the entity's system of internal control can occur because of human error. For example, there may be an error in the design of, or in the change to, a control. Equally, the operation of a control may not be effective, such as where information produced for the purposes of the entity's system of internal control (for example, an exception report) is not effectively used because the individual responsible for reviewing the information does not understand its purpose or fails to take appropriate action.
23. Additionally, controls can be circumvented by the collusion of two or more people or inappropriate management override of controls. For example, management may enter into side agreements with customers that alter the terms and conditions of the entity's standard sales contracts, which may result in improper revenue recognition. Also, edit checks in an IT application that are designed to identify and report transactions that exceed specified credit limits may be overridden or disabled.
24. Further, in designing and implementing controls, management may make judgements on the nature and extent of the controls it chooses to implement, and the nature and extent of the risks it chooses to assume.

ISA (NZ) 315 (Revised 2019)**Appendix 4**

(Ref: Para 14(a), 24(a)(ii), A25–A28, A118)

Considerations for Understanding an Entity's Internal Audit Function

This appendix provides further considerations relating to understanding the entity's internal audit function when such a function exists.

Objectives and Scope of the Internal Audit Function

1. The objectives and scope of an internal audit function, the nature of its responsibilities and its status within the organisation, including the function's authority and accountability, vary widely and depend on the size, complexity and structure of the entity and the requirements of management and, where applicable, those charged with governance. These matters may be set out in an internal audit charter or terms of reference.
2. The responsibilities of an internal audit function may include performing procedures and evaluating the results to provide assurance to management and those charged with governance regarding the design and effectiveness of risk management, the entity's system of internal control and governance processes. If so, the internal audit function may play an important role in the entity's process to monitor the entity's system of internal control. However, the responsibilities of the internal audit function may be focused on evaluating the economy, efficiency and effectiveness of operations and, if so, the work of the function may not directly relate to the entity's financial reporting.

Enquiries of the Internal Audit Function

3. If an entity has an internal audit function, enquiries of the appropriate individuals within the function may provide information that is useful to the auditor in obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, and in identifying and assessing risks of material misstatement at the financial statement and assertion levels. In performing its work, the internal audit function is likely to have obtained insight into the entity's operations and business risks, and may have findings based on its work, such as identified control deficiencies or risks, that may provide valuable input into the auditor's understanding of the entity and its environment, the applicable financial reporting framework, the entity's system of internal control, the auditor's risk assessments or other aspects of the audit. The auditor's enquiries are therefore made whether or not the auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed.⁷⁴ Enquiries of particular relevance may be about matters the internal audit function has raised with those charged with governance and the outcomes of the function's own risk assessment process.
4. If, based on responses to the auditor's enquiries, it appears that there are findings that may be relevant to the entity's financial reporting and the audit of the financial statements, the auditor may consider it appropriate to read related reports of the internal audit function. Examples of reports of the internal audit function that may be relevant include the function's

⁷⁴ The relevant requirements are contained in ISA (NZ) 610 (Revised 2013).

ISA (NZ) 315 (Revised 2019)

strategy and planning documents and reports that have been prepared for management or those charged with governance describing the findings of the internal audit function's examinations.

5. In addition, in accordance with ISA (NZ) 240,⁷⁵ if the internal audit function provides information to the auditor regarding any ~~actual, fraud or~~ suspected ~~or alleged~~ fraud, including allegations of fraud, the auditor takes this into account in the auditor's identification of risk of material misstatement due to fraud.
6. Appropriate individuals within the internal audit function with whom enquiries are made are those who, in the auditor's judgement, have the appropriate knowledge, experience and authority, such as the chief internal audit executive or, depending on the circumstances, other personnel within the function. The auditor may also consider it appropriate to have periodic meetings with these individuals.

Consideration of the Internal Audit Function in Understanding the Control Environment

7. In understanding the control environment, the auditor may consider how management has responded to the findings and recommendations of the internal audit function regarding identified control deficiencies relevant to the preparation of the financial statements, including whether and how such responses have been implemented, and whether they have been subsequently evaluated by the internal audit function.

Understanding the Role that the Internal Audit Function Plays in the Entity's Process to Monitor the System of Internal Control

8. If the nature of the internal audit function's responsibilities and assurance activities are related to the entity's financial reporting, the auditor may also be able to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the auditor in obtaining audit evidence. Auditors may be more likely to be able to use the work of an entity's internal audit function when it appears, for example, based on experience in previous audits or the auditor's risk assessment procedures, that the entity has an internal audit function that is adequately and appropriately resourced relative to the complexity of the entity and the nature of its operations, and has a direct reporting relationship to those charged with governance.
9. If, based on the auditor's preliminary understanding of the internal audit function, the auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed, ISA (NZ) 610 (Revised) applies.
10. As is further discussed in ISA (NZ) 610 (Revised), the activities of an internal audit function are distinct from other monitoring controls that may be relevant to financial reporting, such as reviews of management accounting information that are designed to contribute to how the entity prevents or detects misstatements.
11. Establishing communications with the appropriate individuals within an entity's internal audit function early in the engagement, and maintaining such communications throughout the engagement, can facilitate effective sharing of information. It creates an environment in

⁷⁵ ISA (NZ) 240, paragraph ~~19~~34(b)

ISA (NZ) 315 (Revised 2019)

which the auditor can be informed of significant matters that may come to the attention of the internal audit function when such matters may affect the work of the auditor. ISA (NZ) 200 discusses the importance of the auditor planning and performing the audit with professional scepticism,⁷⁶ including being alert to information that brings into question the reliability of documents and responses to enquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring such information to the auditor's attention. The auditor is then able to take such information into account in the auditor's identification and assessment of risks of material misstatement.

⁷⁶ ISA (NZ) 200, paragraph 7

ISA (NZ) 315 (Revised 2019)**Appendix 5**

(Ref: Para. 25(a), 26(b)–(c), A94, A166–A172)

Considerations for Understanding Information Technology (IT)

This appendix provides further matters that the auditor may consider in understanding the entity's use of IT in its system of internal control.

Understanding the Entity's Use of Information Technology in the Components of the Entity's System of Internal Control

1. An entity's system of internal control contains manual elements and automated elements (i.e., manual and automated controls and other resources used in the entity's system of internal control). An entity's mix of manual and automated elements varies with the nature and complexity of the entity's use of IT. An entity's use of IT affects the manner in which the information relevant to the preparation of the financial statements in accordance with the applicable financial reporting framework is processed, stored and communicated, and therefore affects the manner in which the entity's system of internal control is designed and implemented. Each component of the entity's system of internal control may use some extent of IT.

Generally, IT benefits an entity's system of internal control by enabling an entity to:

- Consistently apply predefined business rules and perform complex calculations in processing large volumes of transactions or data;
 - Enhance the timeliness, availability and accuracy of information;
 - Facilitate the additional analysis of information;
 - Enhance the ability to monitor the performance of the entity's activities and its policies and procedures;
 - Reduce the risk that controls will be circumvented; and
 - Enhance the ability to achieve effective segregation of duties by implementing security controls in IT applications, databases and operating systems.
2. The characteristics of manual or automated elements are relevant to the auditor's identification and assessment of the risks of material misstatement, and further audit procedures based thereon. Automated controls may be more reliable than manual controls because they cannot be as easily bypassed, ignored, or overridden, and they are also less prone to simple errors and mistakes. Automated controls may be more effective than manual controls in the following circumstances:
 - High volume of recurring transactions, or in situations where errors that can be anticipated or predicted can be prevented, or detected and corrected, through automation.
 - Controls where the specific ways to perform the control can be adequately designed and automated.

ISA (NZ) 315 (Revised 2019)

Understanding the Entity's Use of Information Technology in the Information System (Ref: Para. 25(a))

3. The entity's information system may include the use of manual and automated elements, which also affect the manner in which transactions are initiated, recorded, processed, and reported. In particular, procedures to initiate, record, process and report transactions may be enforced through the IT applications used by the entity, and how the entity has configured those applications. In addition, records in the form of digital information may replace or supplement records in the form of paper documents.
4. In obtaining an understanding of the IT environment relevant to the flows of transactions and information processing in the information system, the auditor gathers information about the nature and characteristics of the IT applications used, as well as the supporting IT infrastructure and IT. The following table includes examples of matters that the auditor may consider in obtaining the understanding of the IT environment and includes examples of typical characteristics of IT environments based on the complexity of IT applications used in the entity's information system. However, such characteristics are directional and may differ depending on the nature of the specific IT applications in use by an entity.

	Examples of typical characteristics of:		
	Non-complex commercial software	Mid-size and moderately complex commercial software or IT applications	Large or complex IT applications (e.g., ERP systems)
Matters related to extent of automation and use of data:			
The extent of automated procedures for processing, and the complexity of those procedures, including, whether there is highly automated, paperless processing.	N/A	N/A	Extensive and often complex automated procedures
The extent of the entity's reliance on system-generated reports in the processing of information.	Simple automated report logic	Simple relevant automated report logic	Complex automated report logic; Report-writer software
How data is input (i.e., manual input, customer	Manual data inputs	Small number of data inputs or simple interfaces	Large number of data inputs or

ISA (NZ) 315 (Revised 2019)

	Examples of typical characteristics of:		
	Non-complex commercial software	Mid-size and moderately complex commercial software or IT applications	Large or complex IT applications (e.g., ERP systems)
or vendor input, or file load).			complex interfaces
How IT facilitates communication between applications, databases or other aspects of the IT environment, internally and externally, as appropriate, through system interfaces.	No automated interfaces (manual inputs only)	Small number of data inputs or simple interfaces	Large number of data inputs or complex interfaces
The volume and complexity of data in digital form being processed by the information system, including whether accounting records or other information are stored in digital form and the location of stored data.	Low volume of data or simple data that is able to be verified manually; Data available locally	Low volume of data or simple data	Large volume of data or complex data; Data warehouses; ⁷⁷ Use of internal or external IT service providers (e.g., third-party storage or hosting of data)
Matters related to the IT applications and IT infrastructure:			
The type of application (e.g., a commercial application with little or no customisation, or a highly-customised or	Purchased application with little or no customisation	Purchased application or simple legacy or low-end ERP applications with	Custom developed applications or more complex ERPs with

⁷⁷ A data warehouse is generally described as a central repository of integrated data from one or more disparate sources (such as multiple databases) from which reports may be generated or that may be used by the entity for other data analysis activities. A report-writer is an IT application that is used to extract data from one or more sources (such as a data warehouse, a database or an IT application) and present the data in a specified format.

ISA (NZ) 315 (Revised 2019)

	Examples of typical characteristics of:		
	Non-complex commercial software	Mid-size and moderately complex commercial software or IT applications	Large or complex IT applications (e.g., ERP systems)
highly-integrated application that may have been purchased and customised, or developed in-house).		little or no customisation	significant customisation
The complexity of the nature of the IT applications and the underlying IT infrastructure.	Small, simple laptop or client server-based solution	Mature and stable mainframe, small or simple client server, software as a service cloud	Complex mainframe, large or complex client server, web-facing, infrastructure as a service cloud
Whether there is third-party hosting or outsourcing of IT.	If outsourced, competent, mature, proven provider (e.g., cloud provider)	If outsourced, competent, mature, proven provider (e.g., cloud provider)	Competent, mature proven provider for certain applications and new or start-up provider for others
Whether the entity is using emerging technologies that affect its financial reporting.	No use of emerging technologies	Limited use of emerging technologies in some applications	Mixed use of emerging technologies across platforms
Matters related to IT processes:			
The personnel involved in maintaining the IT environment (the number and skill level of the IT support resources that manage security and changes to the IT environment).	Few personnel with limited IT knowledge to process vendor upgrades and manage access	Limited personnel with IT skills / dedicated to IT	Dedicated IT departments with skilled personnel, including programming skills

ISA (NZ) 315 (Revised 2019)

	Examples of typical characteristics of:		
	Non-complex commercial software	Mid-size and moderately complex commercial software or IT applications	Large or complex IT applications (e.g., ERP systems)
The complexity of processes to manage access rights.	Single individual with administrative access manage access rights	Few individuals with administrative access manage access rights	Complex processes managed by IT department for access rights
The complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment to cyber risks, particularly when there are web-based transactions or transactions involving external interfaces.	Simple on-premise access with no external web-facing elements	Some web-based applications with primarily simple, role-based security	Multiple platforms with web-based access and complex security models
Whether program changes have been made to the manner in which information is processed, and the extent of such changes during the period.	Commercial software with no source code installed	Some commercial applications with no source code and other mature applications with a small number or simple changes; traditional systems development lifecycle	New or large number or complex changes, several development cycles each year
The extent of change within the IT environment (e.g., new aspects of the IT environment or significant changes in the IT applications or the underlying IT infrastructure).	Changes limited to version upgrades of commercial software	Changes consist of commercial software upgrades, ERP version upgrades, or legacy enhancements	New or large number or complex changes, several development cycles each year, heavy ERP customisation

ISA (NZ) 315 (Revised 2019)

	Examples of typical characteristics of:		
	Non-complex commercial software	Mid-size and moderately complex commercial software or IT applications	Large or complex IT applications (e.g., ERP systems)
Whether there was a major data conversion during the period and, if so, the nature and significance of the changes made, and how the conversion was undertaken.	Software upgrades provided by vendor; No data conversion features for upgrade	Minor version upgrades for commercial software applications with limited data being converted	Major version upgrade, new release, platform change

Emerging Technologies

5. Entities may use emerging technologies (e.g., blockchain, robotics or artificial intelligence) because such technologies may present specific opportunities to increase operational efficiencies or enhance financial reporting. When emerging technologies are used in the entity's information system relevant to the preparation of the financial statements, the auditor may include such technologies in the identification of IT applications and other aspects of the IT environment that are subject to risks arising from the use of IT. While emerging technologies may be seen to be more sophisticated or more complex compared to existing technologies, the auditor's responsibilities in relation to IT applications and identified general IT controls in accordance with paragraph 26(b)–(c) remain unchanged.

Scalability

6. Obtaining an understanding of the entity's IT environment may be more easily accomplished for a less complex entity that uses commercial software and when the entity does not have access to the source code to make any program changes. Such entities may not have dedicated IT resources but may have a person assigned in an administrator role for the purpose of granting employee access or installing vendor-provided updates to the IT applications. Specific matters that the auditor may consider in understanding the nature of a commercial accounting software package, which may be the single IT application used by a less complex entity in its information system, may include:
- The extent to which the software is well established and has a reputation for reliability;
 - The extent to which it is possible for the entity to modify the source code of the software to include additional modules (i.e., add-ons) to the base software, or to make direct changes to data;
 - The nature and extent of modifications that have been made to the software. Although an entity may not be able to modify the source code of the software, many software

ISA (NZ) 315 (Revised 2019)

packages allow for configuration (e.g., setting or amending reporting parameters). These do not usually involve modifications to source code; however, the auditor may consider the extent to which the entity is able to configure the software when considering the completeness and accuracy of information produced by the software that is used as audit evidence; and

- The extent to which data related to the preparation of the financial statements can be directly accessed (i.e., direct access to the database without using the IT application) and the volume of data that is processed. The greater the volume of data, the more likely the entity may need controls that address maintaining the integrity of the data, which may include general IT controls over unauthorised access and changes to the data.
7. Complex IT environments may include highly-customised or highly-integrated IT applications and may therefore require more effort to understand. Financial reporting processes or IT applications may be integrated with other IT applications. Such integration may involve IT applications that are used in the entity's business operations and that provide information to the IT applications relevant to the flows of transactions and information processing in the entity's information system. In such circumstances, certain IT applications used in the entity's business operations may also be relevant to the preparation of the financial statements. Complex IT environments also may require dedicated IT departments that have structured IT processes supported by personnel that have software development and IT environment maintenance skills. In other cases, an entity may use internal or external service providers to manage certain aspects of, or IT processes within, its IT environment (e.g., third-party hosting).

Identifying IT Applications that are Subject to Risks Arising from the use of IT

8. Through understanding the nature and complexity of the entity's IT environment, including the nature and extent of information processing controls, the auditor may determine which IT applications the entity is relying upon to accurately process and maintain the integrity of financial information. The identification of IT applications on which the entity relies may affect the auditor's decision to test the automated controls within such IT applications, assuming that such automated controls address identified risks of material misstatement. Conversely, if the entity is not relying on an IT application, the automated controls within such IT application are unlikely to be appropriate or sufficiently precise for purposes of operating effectiveness tests. Automated controls that may be identified in accordance with paragraph 26(b) may include, for example, automated calculations or input, processing and output controls, such as a three-way match of a purchase order, vendor shipping document, and vendor invoice. When automated controls are identified by the auditor and the auditor determines through the understanding of the IT environment that the entity is relying on the IT application that includes those automated controls, it may be more likely for the auditor to identify the IT application as one that is subject to risks arising from the use of IT.
9. In considering whether the IT applications for which the auditor has identified automated controls are subject to risks arising from the use of IT, the auditor is likely to consider whether, and the extent to which, the entity may have access to source code that enables management to make program changes to such controls or the IT applications. The extent to

ISA (NZ) 315 (Revised 2019)

which the entity makes program or configuration changes and the extent to which the IT processes over such changes are formalised may also be relevant considerations. The auditor is also likely to consider the risk of inappropriate access or changes to data.

10. System-generated reports that the auditor may intend to use as audit evidence may include, for example, a trade receivable aging report or an inventory valuation report. For such reports, the auditor may obtain audit evidence about the completeness and accuracy of the reports by substantively testing the inputs and outputs of the report. In other cases, the auditor may plan to test the operating effectiveness of the controls over the preparation and maintenance of the report, in which case the IT application from which it is produced is likely to be subject to risks arising from the use of IT. In addition to testing the completeness and accuracy of the report, the auditor may plan to test the operating effectiveness of general IT controls that address risks related to inappropriate or unauthorised program changes to, or data changes in, the report.
11. Some IT applications may include report-writing functionality within them while some entities may also utilise separate report-writing applications (i.e., report-writers). In such cases, the auditor may need to determine the sources of system-generated reports (i.e., the application that prepares the report and the data sources used by the report) to determine the IT applications subject to risks arising from the use of IT.
12. The data sources used by IT applications may be databases that, for example, can only be accessed through the IT application or by IT personnel with database administration privileges. In other cases, the data source may be a data warehouse that may itself be considered to be an IT application subject to risks arising from the use of IT.
13. The auditor may have identified a risk for which substantive procedures alone are not sufficient because of the entity's use of highly-automated and paperless processing of transactions, which may involve multiple integrated IT applications. In such circumstances, the controls identified by the auditor are likely to include automated controls. Further, the entity may be relying on general IT controls to maintain the integrity of the transactions processed and other information used in processing. In such cases, the IT applications involved in the processing and the storage of the information are likely subject to risks arising from the use of IT.

End-User Computing

14. Although audit evidence may also come in the form of system-generated output that is used in a calculation performed in an end-user computing tool (e.g., spreadsheet software or simple databases), such tools are not typically identified as IT applications in the context of paragraph 26(b). Designing and implementing controls around access and change to end-user computing tools may be challenging, and such controls are rarely equivalent to, or as effective as, general IT controls. Rather, the auditor may consider a combination of information processing controls, taking into account the purpose and complexity of the end-user computing involved, such as:
 - Information processing controls over the initiation and processing of the source data, including relevant automated or interface controls to the point from which the data is extracted (i.e., the data warehouse);

ISA (NZ) 315 (Revised 2019)

- Controls to check that the logic is functioning as intended, for example, controls which ‘prove’ the extraction of data, such as reconciling the report to the data from which it was derived, comparing the individual data from the report to the source and vice versa, and controls which check the formulas or macros; or
- Use of validation software tools, which systematically check formulas or macros, such as spreadsheet integrity tools.

Scalability

15. The entity’s ability to maintain the integrity of information stored and processed in the information system may vary based on the complexity and volume of the related transactions and other information. The greater the complexity and volume of data that supports a significant class of transactions, account balance or disclosure, the less likely it may become for the entity to maintain integrity of that information through information processing controls alone (e.g., input and output controls or review controls). It also becomes less likely that the auditor will be able to obtain audit evidence about the completeness and accuracy of such information through substantive testing alone when such information is used as audit evidence. In some circumstances, when volume and complexity of transactions are lower, management may have an information processing control that is sufficient to verify the accuracy and completeness of the data (e.g., individual sales orders processed and billed may be reconciled to the hard copy originally entered into the IT application). When the entity relies on general IT controls to maintain the integrity of certain information used by IT applications, the auditor may determine that the IT applications that maintain that information are subject to risks arising from the use of IT.

Example characteristics of an IT application that is likely not subject to risks arising from IT	Example characteristics of an IT application that is likely subject to risks arising from IT
• Standalone applications. • The volume of data (transactions) is not significant. • The application’s functionality is not complex. • Each transaction is supported by original hard copy documentation.	• Applications are interfaced. • The volume of data (transactions) is significant. • The application’s functionality is complex as: – The application automatically initiates transactions; and – There are a variety of complex calculations underlying automated entries.
IT application is likely not subject to risks arising from IT because: • The volume of data is not significant and therefore management is not relying upon general IT controls to process or maintain the data.	IT application is likely subject to risks arising from IT because: • Management relies on an application system to process or maintain data as the volume of data is significant.

ISA (NZ) 315 (Revised 2019)

• Management does not rely on automated controls or other automated functionality. The auditor has not identified automated controls in accordance with paragraph 26(a). • Although management uses system-generated reports in their controls, it does not rely on these reports. Instead, it reconciles the reports back to the hard copy documentation and verifies the calculations in the reports. • The auditor will directly test information produced by the entity used as audit evidence.	• Management relies upon the application system to perform certain automated controls that the auditor has also identified.

Other Aspects of the IT Environment that Are Subject to Risks Arising from the Use of IT

16. When the auditor identifies IT applications that are subject to risks arising from the use of IT, other aspects of the IT environment are also typically subject to risks arising from the use of IT. The IT infrastructure includes the databases, operating system, and network. Databases store the data used by IT applications and may consist of many interrelated data tables. Data in databases may also be accessed directly through database management systems by IT or other personnel with database administration privileges. The operating system is responsible for managing communications between hardware, IT applications, and other software used in the network. As such, IT applications and databases may be directly accessed through the operating system. A network is used in the IT infrastructure to transmit data and to share information, resources and services through a common communications link. The network also typically establishes a layer of logical security (enabled through the operating system) for access to the underlying resources.
17. When IT applications are identified by the auditor to be subject to risks arising from IT, the database(s) that stores the data processed by an identified IT application is typically also identified. Similarly, because an IT application's ability to operate is often dependent on the operating system and IT applications and databases may be directly accessed from the operating system, the operating system is typically subject to risks arising from the use of IT. The network may be identified when it is a central point of access to the identified IT applications and related databases or when an IT application interacts with vendors or external parties through the internet, or when web-facing IT applications are identified by the auditor.

ISA (NZ) 315 (Revised 2019)*Identifying Risks Arising from the Use of IT and General IT Controls*

18. Examples of risks arising from the use of IT include risks related to inappropriate reliance on IT applications that are inaccurately processing data, processing inaccurate data, or both, such as
- Unauthorised access to data that may result in destruction of data or improper changes to data, including the recording of unauthorised or non-existent transactions, or inaccurate recording of transactions. Particular risks may arise where multiple users access a common database.
 - The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.
 - Unauthorised changes to data in master files.
 - Unauthorised changes to IT applications or other aspects of the IT environment.
 - Failure to make necessary changes to IT applications or other aspects of the IT environment.
 - Inappropriate manual intervention.
 - Potential loss of data or inability to access data as required.
19. The auditor's consideration of unauthorised access may include risks related to unauthorised access by internal or external parties (often referred to as cybersecurity risks). Such risks may not necessarily affect financial reporting, as an entity's IT environment may also include IT applications and related data that address operational or compliance needs. It is important to note that cyber incidents usually first occur through the perimeter and internal network layers, which tend to be further removed from the IT application, database and operating systems that affect the preparation of the financial statements. Accordingly, if information about a security breach has been identified, the auditor ordinarily considers the extent to which such a breach had the potential to affect financial reporting. If financial reporting may be affected, the auditor may decide to understand, and test the related controls to determine the possible impact or scope of potential misstatements in the financial statements or may determine that the entity has provided adequate disclosures in relation to such security breach.
20. In addition, laws and regulations that may have a direct or indirect effect on the entity's financial statements may include data protection legislation. Considering an entity's compliance with such laws or regulations, in accordance with ISA (NZ) 250 (Revised),⁷⁸ may involve understanding the entity's IT processes and general IT controls that the entity has implemented to address the relevant laws or regulations.
21. General IT controls are implemented to address risks arising from the use of IT. Accordingly, the auditor uses the understanding obtained about the identified IT applications and other aspects of the IT environment and the applicable risks arising from the use of IT in determining the general IT controls to identify. In some cases, an entity may use common IT

⁷⁸ ISA (NZ) 250 (Revised)

ISA (NZ) 315 (Revised 2019)

processes across its IT environment or across certain IT applications, in which case common risks arising from the use of IT and common general IT controls may be identified.

22. In general, a greater number of general IT controls related to IT applications and databases are likely to be identified than for other aspects of the IT environment. This is because these aspects are the most closely concerned with the information processing and storage of information in the entity's information system. In identifying general IT controls, the auditor may consider controls over actions of both end users and of the entity's IT personnel or IT service providers.
23. Appendix 6 provides further explanation of the nature of the general IT controls typically implemented for different aspects of the IT environment. In addition, examples of general IT controls for different IT processes are provided.

ISA (NZ) 315 (Revised 2019)

Appendix 6

(Ref: Para. 26(c)(ii), A173–A174)

Considerations for Understanding General IT Controls

This appendix provides further matters that the auditor may consider in understanding general IT controls.

1. The nature of the general IT controls typically implemented for each of the aspects of the IT environment:

- (a) Applications

General IT controls at the IT application layer will correlate to the nature and extent of application functionality and the access paths allowed in the technology. For example, more controls will be relevant for highly-integrated IT applications with complex security options than a legacy IT application supporting a small number of account balances with access methods only through transactions.

- (b) Database

General IT controls at the database layer typically address risks arising from the use of IT related to unauthorised updates to financial reporting information in the database through direct database access or execution of a script or program.

- (c) Operating system

General IT controls at the operating system layer typically address risks arising from the use of IT related to administrative access, which can facilitate the override of other controls. This includes actions such as compromising other user's credentials, adding new, unauthorised users, loading malware or executing scripts or other unauthorised programs.

- (d) Network

General IT controls at the network layer typically address risks arising from the use of IT related to network segmentation, remote access, and authentication. Network controls may be relevant when an entity has web-facing applications used in financial reporting. Network controls are also may be relevant when the entity has significant business partner relationships or third-party outsourcing, which may increase data transmissions and the need for remote access.

2. Examples of general IT controls that may exist, organised by IT process include:

- (a) Process to manage access:

- *Authentication*

Controls that ensure a user accessing the IT application or other aspect of the IT environment is using the user's own log-in credentials (i.e., the user is not using another user's credentials).

ISA (NZ) 315 (Revised 2019)

- *Authorisation*
Controls that allow users to access the information necessary for their job responsibilities and nothing further, which facilitates appropriate segregation of duties.
 - *Provisioning*
Controls to authorise new users and modifications to existing users' access privileges.
 - *Deprovisioning*
Controls to remove user access upon termination or transfer.
 - *Privileged access*
Controls over administrative or powerful users' access.
 - *User access reviews*
Controls to recertify or evaluate user access for ongoing authorisation over time.
 - *Security configuration controls*
Each technology generally has key configuration settings that help restrict access to the environment.
 - *Physical access*
Controls over physical access to the data centre and hardware, as such access may be used to override other controls.
- (b) Process to manage program or other changes to the IT environment:
- *Change management process*
Controls over the process to design, program, test and migrate changes to a production (i.e., end user) environment.
 - *Segregation of duties over change migration*
Controls that segregate access to make and migrate changes to a production environment.
 - *Systems development or acquisition or implementation*
Controls over initial IT application development or implementation (or in relation to other aspects of the IT environment).
 - *Data conversion*
Controls over the conversion of data during development, implementation or upgrades to the IT environment.
- (c) Process to manage IT operations
- *Job scheduling*

ISA (NZ) 315 (Revised 2019)

Controls over access to schedule and initiate jobs or programs that may affect financial reporting.

- *Job monitoring*

Controls to monitor financial reporting jobs or programs for successful execution.

- *Backup and recovery*

Controls to ensure backups of financial reporting data occur as planned and that such data is available and able to be accessed for timely recovery in the event of an outage or attack.

- *Intrusion detection*

Controls to monitor for vulnerabilities and or intrusions in the IT environment.

The table below illustrates examples of general IT controls to address examples of risks arising from the use of IT, including for different IT applications based on their nature.

Process	Risks	Controls	IT Applications		
IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software – Applicable (yes / no)	Mid-size and moderately complex commercial software or IT applications – Applicable (yes / no)	Large or complex IT applications (e.g., ERP systems) – Applicable (yes / no)
Manage Access	User-access privileges: Users have access privileges beyond those necessary to perform their assigned duties, which may create improper segregation of duties.	Management approves the nature and extent of user-access privileges for new and modified user access, including standard application profiles/roles, critical financial reporting transactions, and segregation of duties	Yes – instead of user access reviews noted below	Yes	Yes

ISA (NZ) 315 (Revised 2019)

Process	Risks	Controls	IT Applications		
IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software – Applicable (yes / no)	Mid-size and moderately complex commercial software or IT applications – Applicable (yes / no)	Large or complex IT applications (e.g., ERP systems) – Applicable (yes / no)
		Access for terminated or transferred users is removed or modified in a timely manner	Yes – instead of user access reviews below	Yes	Yes
		User access is periodically reviewed	Yes – instead of provisioning/Deprovisioning controls above	Yes – for certain applications	Yes
		Segregation of duties is monitored and conflicting access is either removed or mapped to mitigating controls, which are documented and tested	N/A – no system enabled segregation	Yes – for certain applications	Yes
		Privileged-level access (e.g., configuration, data and security administrators) is authorised and appropriately restricted	Yes – likely at IT application layer only	Yes – at IT application and certain layers of IT environment for platform	Yes – at all layers of IT environment for platform

ISA (NZ) 315 (Revised 2019)

Process	Risks	Controls	IT Applications		
IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software – Applicable (yes / no)	Mid-size and moderately complex commercial software or IT applications – Applicable (yes / no)	Large or complex IT applications (e.g., ERP systems) – Applicable (yes / no)
Manage Access	Direct data access: Inappropriate changes are made directly to financial data through means other than application transactions.	Access to application data files or database objects/tables/data is limited to authorised personnel, based on their job responsibilities and assigned role, and such access is approved by management	N/A	Yes – for certain applications and databases	Yes
Manage Access	System settings: Systems are not adequately configured or updated to restrict system access to properly authorised and appropriate users.	Access is authenticated through unique user IDs and passwords or other methods as a mechanism for validating that users are authorised to gain access to the system. Password parameters meet company or industry standards (e.g., password minimum length and complexity,	Yes – password authentication only	Yes – mix of password and multi-factor authentication	Yes

ISA (NZ) 315 (Revised 2019)

Process	Risks	Controls	IT Applications		
IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software – Applicable (yes / no)	Mid-size and moderately complex commercial software or IT applications – Applicable (yes / no)	Large or complex IT applications (e.g., ERP systems) – Applicable (yes / no)
		expiration, account lockout)			
		The key attributes of the security configuration are appropriately implemented	N/A – no technical security configurations exist	Yes – for certain applications and databases	Yes
Manage Change	Application changes: Inappropriate changes are made to application systems or programs that contain relevant automated controls (i.e., configurable settings, automated algorithms, automated calculations, and automated data extraction) or report logic.	Application changes are appropriately tested and approved before being moved into the production environment	N/A – would verify no source code installed	Yes – for non-commercial software	Yes
		Access to implement changes into the application production environment is appropriately restricted and segregated from the development environment	N/A	Yes – for non-commercial software	Yes

ISA (NZ) 315 (Revised 2019)

Process	Risks	Controls	IT Applications		
IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software – Applicable (yes / no)	Mid-size and moderately complex commercial software or IT applications – Applicable (yes / no)	Large or complex IT applications (e.g., ERP systems) – Applicable (yes / no)
Manage Change	Database changes: Inappropriate changes are made to the database structure and relationships between the data.	Database changes are appropriately tested and approved before being moved into the production environment	N/A – no database changes made at entity	Yes – for non-commercial software	Yes
Manage Change	System software changes: Inappropriate changes are made to system software (e.g., operating system, network, change-management software, access-control software).	System software changes are appropriately tested and approved before being moved to production	N/A – no system software changes are made at entity	Yes	Yes

ISA (NZ) 315 (Revised 2019)

Process	Risks	Controls	IT Applications		
IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software – Applicable (yes / no)	Mid-size and moderately complex commercial software or IT applications – Applicable (yes / no)	Large or complex IT applications (e.g., ERP systems) – Applicable (yes / no)
Manage Change	Data conversion: Data converted from legacy systems or previous versions introduces data errors if the conversion transfers incomplete, redundant, obsolete, or inaccurate data.	Management approves the results of the conversion of data (e.g., balancing and reconciliation activities) from the old application system or data structure to the new application system or data structure and monitors that the conversion is performed in accordance with established conversion policies and procedures	N/A – Addressed through manual controls	Yes	Yes
IT Operations	Network: The network does not adequately prevent unauthorised users from gaining inappropriate access to	Access is authenticated through unique user IDs and passwords or other methods as a mechanism for validating that users are authorised to gain	N/A – no separate network authentication method exists	Yes	Yes

ISA (NZ) 315 (Revised 2019)

Process	Risks	Controls	IT Applications		
IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software – Applicable (yes / no)	Mid-size and moderately complex commercial software or IT applications – Applicable (yes / no)	Large or complex IT applications (e.g., ERP systems) – Applicable (yes / no)
	information systems.	access to the system. Password parameters meet company or professional policies and standards (e.g., password minimum length and complexity, expiration, account lockout)			
		Network is architected to segment web-facing applications from the internal network, where ICFR relevant applications are accessed	N/A – no network segmentation employed	Yes – with judgement	Yes – with judgement
		On a periodic basis, vulnerability scans of the network perimeter are performed by the network management team, which also	N/A	Yes – with judgement	Yes – with judgement

ISA (NZ) 315 (Revised 2019)

Process	Risks	Controls	IT Applications		
IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software – Applicable (yes / no)	Mid-size and moderately complex commercial software or IT applications – Applicable (yes / no)	Large or complex IT applications (e.g., ERP systems) – Applicable (yes / no)
		investigates potential vulnerabilities			
		On a periodic basis, alerts are generated to provide notification of threats identified by the intrusion detection systems. These threats are investigated by the network management team	N/A	Yes – with judgement	Yes – with judgement
		Controls are implemented to restrict Virtual Private Network (VPN) access to authorised and appropriate users	N/A – no VPN	Yes – with judgement	Yes – with judgement
IT Operations	Data backup and recovery: Financial data cannot be recovered or accessed in a timely manner	Financial data is backed up on a regular basis according to an established schedule and frequency	N/A – relying on manual backups by finance team	Yes	Yes

ISA (NZ) 315 (Revised 2019)

Process	Risks	Controls	IT Applications		
IT Process	Example Risks Arising from the Use of IT	Example General IT Controls	Non-complex commercial software – Applicable (yes / no)	Mid-size and moderately complex commercial software or IT applications – Applicable (yes / no)	Large or complex IT applications (e.g., ERP systems) – Applicable (yes / no)
	when there is a loss of data.				
IT Operations	Job scheduling: Production systems, or jobs result in inaccurate, incomplete, or unauthorised processing of data.	Only authorised users have access to update the batch jobs (including interface jobs) in the job scheduling software	N/A – no batch jobs	Yes – for certain applications	Yes
		Critical systems, programs, or jobs are monitored, and processing errors are corrected to ensure successful completion	N/A – no job monitoring	Yes – for certain applications	Yes

ISA (NZ) 315 (Revised 2019)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

~~This conformity statement accompanies but is not part of ISA (NZ) 315 (Revised 2019).~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing (ISA) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, issued by the International Auditing and Assurance Standards ~~Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 315 (Revised 2019).

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.

ASA 315 conforms to ISA 315 (Revised 2019).

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 315 (Revised 2019) <i>Identifying and Assessing the Risks of Material Misstatement</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 330

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

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in June 2021 and incorporates amendments up to and including June 2020.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 330 issued by the External Reporting Board in July 2011.

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-11-1

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 330 *The Auditor's Responses to Assessed Risks* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 330 issued by the External Reporting Board in July 2011 (as amended to February 2020).

The revision of ISA (NZ) 330 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board ("IAASB"). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 330

THE AUDITOR'S RESPONSES TO ASSESSED RISKS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Commencement and Application	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1
Effective Date	2
Objective	3
Definitions	4
Requirements	
Overall Responses.....	5
Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level	6-23
Adequacy of Presentation of the Financial Statements.....	24
Evaluating the Sufficiency and Appropriateness of Audit Evidence.....	25-27
Documentation.....	28-30
Application and Other Explanatory Material	
Overall Responses.....	A1-A3
Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level.....	A4-A60
Adequacy of Presentation of the Financial Statements.....	A61
Evaluating the Sufficiency and Appropriateness of Audit Evidence	A62-A64
Documentation.....	A65
Accompanying Attachment: Conformity to the International Standards on Auditing	

International Standard on Auditing (New Zealand) (ISA (NZ)) 330, “*The Auditor’s Responses to Assessed Risks*” should be read in conjunction with ISA (NZ) 200, “*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.”

History of Amendments

Table of pronouncements – ISA (NZ) 330 -*The Auditor's Responses to Assessed Risks*

This table lists the pronouncements establishing and amending ISA (NZ) 330.

Pronouncements	Date approved	<u>Application Effective date</u>
International Standard on Auditing (New Zealand) 330	~~July 2011~~ <u>October 2025</u>	~~This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September, 2011. Periods beginning on or after 15 December 2026, refer commencement and application section.~~
~~International Standard on Auditing (New Zealand) 610 (Revised 2013) Using the Work of Internal Auditors~~	~~April 2013~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2013~~
~~Use of management and those charged with governance~~	~~Dec 2013~~	~~Effective for audits of financial statements for periods beginning on or after 1 July 2014~~
~~Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures~~	~~September 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021~~

Table of Amended Paragraphs in ISA (NZ) 330		
Paragraph affected	How affected	By...[date]
1, A60, footnote 3	Amended	ISA (NZ) 610 (Revised 2013) [April 2013]
Various	Amended	Use of management and those charged with governance [Dec 2013]
20, 24, 30, A13, A14, A52, A59	Amended	Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures

ISA (NZ) 330

Table of Amended Paragraphs in ISA (NZ) 330		
~~1, 6, 7, 8, 10, 13, 14, 15, 16, 17, 27~~ ~~A1, A4, A7, A9, A10, A18, A20, A24, A27, A29, A32, A33, A36, A37, A39, A43, A47, A48, A58, A59, A62, A64, A65~~ ~~Footnotes 3, 4, 6, 7, 10~~	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)
A30, A31, A44	Inserted	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with ISA (NZ) 315 (Revised 2019)² in an audit of financial statements.

Effective Date

2. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Note: For effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraph 0.1 -0.2]~~

NZ 2.1 This Standard repeals ISA (NZ) 330 *The Auditor's Responses to Assessed Risks* issued in July 2011.

Objective

3. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

Definitions

4. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) *Substantive procedure* – An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:
 - (i) Tests of details (of classes of transactions, account balances, and disclosures); and
 - (ii) Substantive analytical procedures.
 - (b) *Test of controls* – An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.

Requirements

Overall Responses

5. The auditor shall design and implement overall responses to address the assessed risks of material misstatement at the financial statement level. (Ref: Para. A1-A3)

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

6. 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. (Ref: Para. A4-A8, A43-A54)

² ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

ISA (NZ) 330

7. In designing the further audit procedures to be performed, the auditor shall:
 - (a) Consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each significant_class of transactions, account balance, and disclosure, including:
 - (i) The likelihood and magnitude of misstatement due to the particular characteristics of the significant_class of transactions, account balance, or disclosure (that is, the inherent risk); and
 - (ii) Whether the risk assessment takes account of controls that address the risk of material misstatement (that is, the control risk), thereby requiring the auditor to obtain audit evidence to determine whether the controls are operating effectively (that is, the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); (Ref: Para. A9-A18) and
 - (b) Obtain more persuasive audit evidence the higher the auditor's assessment of risk. (Ref: Para. A19)

Tests of Controls

8. The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls if:
 - (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (that is, the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or
 - (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level. (Ref: Para. A20-A24)
9. In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control. (Ref: Para. A25)

Nature and Extent of Tests of Controls

10. In designing and performing tests of controls, the auditor shall:
 - (a) Perform other audit procedures in combination with enquiry to obtain audit evidence about the operating effectiveness of the controls, including:
 - (i) How the controls were applied at relevant times during the period under audit;
 - (ii) The consistency with which they were applied; and
 - (iii) By whom or by what means they were applied. (Ref: Para. A26-31)
 - (b) To the extent not already addressed, determine whether the controls to be tested depend upon other controls (indirect controls), and, if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls. (Ref: Para. A32)

ISA (NZ) 330**Timing of Tests of Controls**

11. The auditor shall test controls for the particular time, or throughout the period, for which the auditor intends to rely on those controls, subject to paragraphs 12 and 15 below, in order to provide an appropriate basis for the auditor's intended reliance. (Ref: Para. A33)

Using audit evidence obtained during an interim period

12. If the auditor obtains audit evidence about the operating effectiveness of controls during an interim period, the auditor shall:
 - (a) Obtain audit evidence about significant changes to those controls subsequent to the interim period; and
 - (b) Determine the additional audit evidence to be obtained for the remaining period. (Ref: Para. A34-A35)

Using audit evidence obtained in previous audits

13. In determining whether it is appropriate to use audit evidence about the operating effectiveness of controls obtained in previous audits, and, if so, the length of the time period that may elapse before retesting a control, the auditor shall consider the following:
 - (a) The effectiveness of other components of the entity's system of internal control, including the control environment, the entity's process to monitor the system of internal controls, and the entity's risk assessment process;
 - (b) The risks arising from the characteristics of the control, including whether it is manual or automated;
 - (c) The effectiveness of general IT controls;
 - (d) The effectiveness of the control and its application by the entity, including the nature and extent of deviations in the application of the control noted in previous audits, and whether there have been personnel changes that significantly affect the application of the control;
 - (e) Whether the lack of a change in a particular control poses a risk due to changing circumstances; and
 - (f) The risks of material misstatement and the extent of reliance on the control. (Ref: Para. A36)
14. If the auditor plans to use audit evidence from a previous audit about the operating effectiveness of specific controls, the auditor shall establish the continuing relevance and reliability of that evidence by obtaining audit evidence about whether significant changes in those controls have occurred subsequent to the previous audit. The auditor shall obtain this evidence by performing enquiry combined with observation or inspection, to confirm the understanding of those specific controls, and:
 - (a) If there have been changes that affect the continuing relevance of the audit evidence from the previous audit, the auditor shall test the controls in the current audit. (Ref: Para. A37)

ISA (NZ) 330

- (b) If there have not been such changes, the auditor shall test the controls at least once in every third audit, and shall test some controls each audit to avoid the possibility of testing all the controls on which the auditor intends to rely in a single audit period with no testing of controls in the subsequent two audit periods. (Ref: Para. A38-40)

Controls over significant risks

- 15. If the auditor intends to rely on controls over a risk the auditor has determined to be a significant risk, the auditor shall test those controls in the current period.

Evaluating the Operating Effectiveness of Controls

- 16. When evaluating the operating effectiveness of controls upon which the auditor intends to rely, the auditor shall evaluate whether misstatements that have been detected by substantive procedures indicate that controls are not operating effectively. The absence of misstatements detected by substantive procedures, however, does not provide audit evidence that controls related to the assertion being tested are effective. (Ref: Para. A41)
- 17. If deviations from controls upon which the auditor intends to rely are detected, the auditor shall make specific enquiries to understand these matters and their potential consequences, and shall determine whether: (Ref: Para. A42)
 - (a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls;
 - (b) Additional tests of controls are necessary; or
 - (c) The risks of material misstatement need to be addressed using substantive procedures.

Substantive Procedures

- 18. Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure. (Ref: Para. A43-A49)
- 19. The auditor shall consider whether external confirmation procedures are to be performed as substantive audit procedures. (Ref: Para. A50-A53)

Substantive Procedures Related to the Financial Statement Closing Process

- 20. The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process:
 - (a) Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and
 - (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements. (Ref: Para. A54)

Substantive Procedures Responsive to Significant Risks

ISA (NZ) 330

21. If the auditor has determined that an assessed risk of material misstatement at the assertion level is a significant risk, the auditor shall perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details. (Ref: Para. A55)

Timing of Substantive Procedures

22. If substantive procedures are performed at an interim date, the auditor shall cover the remaining period by performing:
 - (a) substantive procedures, combined with tests of controls for the intervening period; or
 - (b) if the auditor determines that it is sufficient, further substantive procedures only, that provide a reasonable basis for extending the audit conclusions from the interim date to the period end. (Ref: Para. A57-A59)
23. If misstatements that the auditor did not expect when assessing the risks of material misstatement are detected at an interim date, the auditor shall evaluate whether the related assessment of risk and the planned nature, timing, or extent of substantive procedures covering the remaining period need to be modified. (Ref: Para. A60)

Adequacy of Presentation of the Financial Statements

24. The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:
 - Classification and description of financial information and the underlying transactions, events and conditions; and
 - Presentation, structure and content of the financial statements. (Ref: Para. A61)

Evaluating the Sufficiency and Appropriateness of Audit Evidence

25. Based on the audit procedures performed and the audit evidence obtained, the auditor shall evaluate before the conclusion of the audit whether the assessments of the risks of material misstatement at the assertion level remain appropriate. (Ref: Para. A62-63)
26. The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Para. A64)
27. If the auditor has not obtained sufficient appropriate audit evidence related a relevant assertion about a class of transactions, account balance or disclosure, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements.

Documentation

28. The auditor shall include in the audit documentation:³
 - (a) The overall responses to address the assessed risks of material misstatement at the financial statement level, and the nature, timing, and extent of the further audit procedures performed;
 - (b) The linkage of those procedures with the assessed risks at the assertion level; and
 - (c) The results of the audit procedures, including the conclusions where these are not otherwise clear. (Ref: Para. A65)
29. If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall include in the audit documentation the conclusions reached about relying on such controls that were tested in a previous audit.
30. The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.

Application and Other Explanatory Material

Overall Responses (Ref: Para. 5)

- A1. Overall responses to address the assessed risks of material misstatement at the financial statement level may include:
 - Emphasising to the audit team the need to maintain professional scepticism.
 - Assigning more experienced staff or those with special skills or using experts.
 - Changes to the nature, timing and extent of direction and supervision of members of the engagement team and the review of the work performed.
 - Incorporating additional elements of unpredictability in the selection of further audit procedures to be performed.
 - Changes to the overall audit strategy as required by ISA (NZ) 300⁴, or planned audit procedures, and may include changes to the auditor's determination of performance materiality in accordance with ISA (NZ) 320.⁵
 - The auditor's plans to tests the operating effectiveness of controls, and the persuasiveness of audit evidence needed to support the planned reliance on the operating effectiveness of the controls, particularly when deficiencies in the control environment or the entity's monitoring activities are identified.

³ ISA (NZ) 230, *Audit Documentation*, paragraphs 8-11, and paragraph A6.

⁴ ISA (NZ) 300, *Planning an Audit of Financial Statements*

⁵ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*

ISA (NZ) 330

- The nature, timing and extent of substantive procedures. For example, it may be appropriate to perform substantive procedures at or near the date of the financial statements when the risk of material misstatement is assessed as higher.
- A2. The assessment of the risks of material misstatement at the financial statement level, and thereby the auditor's overall responses, is affected by the auditor's understanding of the control environment. An effective control environment may allow the auditor to have more confidence in internal control and the reliability of audit evidence generated internally within the entity and thus, for example, allow the auditor to conduct some audit procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect; for example, the auditor may respond to an ineffective control environment by:
- Conducting more audit procedures as of the period end rather than at an interim date.
 - Obtaining more extensive audit evidence from substantive procedures.
 - Increasing the number of locations to be included in the audit scope.
- A3. Such considerations, therefore, have a significant bearing on the auditor's general approach, for example, an emphasis on substantive procedures (substantive approach), or an approach that uses tests of controls as well as substantive procedures (combined approach).

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

The Nature, Timing, and Extent of Further Audit Procedures (Ref: Para. 6)

- A4. The auditor's assessment of the identified risks of material misstatement at the assertion level provides a basis for considering the appropriate audit approach for designing and performing further audit procedures. For example, the auditor may determine that:
- (a) Only by performing tests of controls may the auditor achieve an effective response to the assessed risk of material misstatement for a particular assertion;
 - (b) Performing only substantive procedures is appropriate for particular assertions and, therefore, the auditor excludes the effect of controls from the assessment of the risk of material misstatement. This may be because auditor has not identified a risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence and therefore is not required to test the operating effectiveness of controls. Therefore the auditor may not plan to test on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures; or
 - (c) A combined approach using both tests of controls and substantive procedures is an effective approach.

The auditor need not design and perform further audit procedures where the assessment of the risk of material misstatement is below the acceptably low level. However, as required by paragraph 18, irrespective of the approach selected and the assessed risk of material misstatement, the auditor designs and performs substantive procedures for each material class of transactions, account balance, and disclosure.

ISA (NZ) 330

- A5. The nature of an audit procedure refers to its purpose (that is, test of controls or substantive procedure) and its type (that is, inspection, observation, enquiry, confirmation, recalculation, reperformance, or analytical procedure). The nature of the audit procedures is of most importance in responding to the assessed risks.
- A6. Timing of an audit procedure refers to when it is performed, or the period or date to which the audit evidence applies.
- A7. Extent of an audit procedure refers to the quantity to be performed, for example, a sample size or the number of observations of a control.
- A8. Designing and performing 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 provides a clear linkage between the auditor's further audit procedures and the risk assessment.

Responding to the Assessed Risks at the Assertion Level (Ref: Para. 7(a))**Nature**

- A9. ISA (NZ) 315 (Revised 2019) requires that the auditor's assessment of the risks of material misstatement at the assertion level is performed by assessing inherent risk and control risk. The auditor assesses inherent risk by assessing the likelihood and magnitude of a misstatement taking into account how, and the degree to which the inherent risk factors affect the susceptibility to misstatement of relevant assertions.⁶ The auditor's assessed risks, including the reasons for those assessed risks, may affect both the types of audit procedures to be performed and their combination. For example, when an assessed risk is high, the auditor may confirm the completeness of the terms of a contract with the counterparty, in addition to inspecting the document. Further, certain audit procedures may be more appropriate for some assertions than others. For example, in relation to revenue, tests of controls may be most responsive to the assessed risk of material misstatement of the completeness assertion, whereas substantive procedures may be most responsive to the assessed risk of material misstatement of the occurrence assertion.
- A10. The reasons for the assessment given to a risk are relevant in determining the nature of audit procedures. For example, if an assessed risk is lower because of the particular characteristics of a class of transactions without consideration of the related controls, then the auditor may determine that substantive analytical procedures alone provide sufficient appropriate audit evidence. On the other hand, if the assessed risk is lower because the auditor plans to test the operating effectiveness of controls, and the auditor intends to base the substantive procedures on that low assessment, then the auditor performs tests of those controls, as required by paragraph 8(a). This may be the case, for example, for a class of transactions of reasonably uniform, non-complex characteristics that are routinely processed and controlled by the entity's information system.

Timing

- A11. The auditor may perform tests of controls or substantive procedures at an interim date or at the period end. The higher the risk of material misstatement, the more likely it is

⁶ ISA (NZ) 315 (Revised 2019), paragraphs 31 and 34

ISA (NZ) 330

that the auditor may decide it is more effective to perform substantive procedures nearer to, or at, the period end rather than at an earlier date, or to perform audit procedures unannounced or at unpredictable times (for example, performing audit procedures at selected locations on an unannounced basis). This is particularly relevant when considering the response to the risks of material misstatement due to fraud. For example, the auditor may conclude that, when the risks of intentional misstatement or manipulation have been identified, audit procedures to extend audit conclusions from interim date to the period end would not be effective.

A12. On the other hand, performing audit procedures before the period end may assist the auditor in identifying significant matters at an early stage of the audit, and consequently resolving them with the assistance of management or developing an effective audit approach to address such matters.

A13. In addition, certain audit procedures can be performed only at or after the period end, for example:

- Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers;

1.Examining adjustments made during the course of preparing the financial statements.

- Procedures to respond to a risk that, at the period end, the entity may have entered into improper sales contracts, or transactions may not have been finalised.

A14. Further relevant factors that influence the auditor's consideration of when to perform audit procedures include the following:

- The control environment.
- When relevant information is available (for example, electronic files may subsequently be overwritten, or procedures to be observed may occur only at certain times).
- The nature of the risk (for example, if there is a risk of inflated revenues to meet earnings expectations by subsequent creation of false sales agreements, the auditor may wish to examine contracts available on the date of the period end).
- The period or date to which the audit evidence relates.
- The timing of the preparation of the financial statements, particularly for those disclosures that provide further explanation about amounts recorded in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows.

Extent

A15. The extent of an audit procedure judged necessary is determined after considering the materiality, the assessed risk, and the degree of assurance the auditor plans to obtain. When a single purpose is met by a combination of procedures, the extent of each procedure is considered separately. In general, the extent of audit procedures increases as the risk of material misstatement increases. For example, in response to the assessed risk of material misstatement due to fraud, increasing sample sizes or performing substantive analytical procedures at a more detailed level may be appropriate. However,

ISA (NZ) 330

increasing the extent of an audit procedure is effective only if the audit procedure itself is relevant to the specific risk.

- A16. The use of computer-assisted audit techniques (CAATs) may enable more extensive testing of electronic transactions and account files, which may be useful when the auditor decides to modify the extent of testing, for example, in responding to the risks of material misstatement due to fraud. Such techniques can be used to select sample transactions from key electronic files, to sort transactions with specific characteristics, or to test an entire population instead of a sample.

Considerations specific to public sector entities

- A17. For the audits of public sector entities, the audit mandate and any other special auditing requirements may affect the auditor's consideration of the nature, timing and extent of further audit procedures.

Considerations specific to smaller entities

- A18. In the case of very small entities, there may not be many controls that could be identified by the auditor, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures. In some rare cases, however, the absence of controls or of components of the system of internal control may make it impossible to obtain sufficient appropriate audit evidence.

Higher Assessments of Risk (Ref: Para 7(b))

- A19. When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.

Tests of Controls

Designing and Performing Tests of Controls (Ref: Para. 8)

- A20. Tests of controls are performed only on those controls that the auditor has determined are suitably designed to prevent, or detect and correct, a material misstatement in relevant assertion, and the auditor plans to test those controls. If substantially different controls were used at different times during the period under audit, each is considered separately.
- A21. Testing the operating effectiveness of controls is different from obtaining an understanding of and evaluating the design and implementation of controls. However, the same types of audit procedures are used. The auditor may, therefore, decide it is efficient to test the operating effectiveness of controls at the same time as evaluating their design and determining that they have been implemented.
- A22. Further, although some risk assessment procedures may not have been specifically designed as tests of controls, they may nevertheless provide audit evidence about the operating effectiveness of the controls and, consequently, serve as tests of controls. For example, the auditor's risk assessment procedures may have included:
- Enquiring about management's use of budgets.

ISA (NZ) 330

- Observing management's comparison of monthly budgeted and actual expenses.
- Inspecting reports pertaining to the investigation of variances between budgeted and actual amounts.

These audit procedures provide knowledge about the design of the entity's budgeting policies and whether they have been implemented, but may also provide audit evidence about the effectiveness of the operation of budgeting policies in preventing or detecting material misstatements in the classification of expenses.

- A23. In addition, the auditor may design a test of controls to be performed concurrently with a test of details on the same transaction. Although the purpose of a test of controls is different from the purpose of a test of details, both may be accomplished concurrently by performing a test of controls and a test of details on the same transaction, also known as a dual-purpose test. For example, the auditor may design, and evaluate the results of, a test to examine an invoice to determine whether it has been approved and to provide substantive audit evidence of a transaction. A dual-purpose test is designed and evaluated by considering each purpose of the test separately.
- A24. In some cases the auditor may find it impossible to design effective substantive procedures that by themselves provide sufficient appropriate audit evidence at the assertion level.⁷ This may occur when an entity conducts its business using IT and no documentation of transactions is produced or maintained, other than through the IT system. In such cases, paragraph 8(b) requires the auditor to perform tests of controls that address the risk for which substantive procedures alone cannot provide sufficient appropriate audit evidence.

Audit Evidence and Intended Reliance (Ref: Para. 9)

- A25. A higher level of assurance may be sought about the operating effectiveness of controls when the approach adopted consists primarily of tests of controls, in particular where it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures.

Nature and Extent of Tests of Controls

Other audit procedures in combination with enquiry (Ref: Para. 10(a))

- A26. Enquiry alone is not sufficient to test the operating effectiveness of controls. Accordingly, other audit procedures are performed in combination with enquiry. In this regard, enquiry combined with inspection or reperformance may provide more assurance than enquiry and observation, since an observation is pertinent only at the point in time at which it is made.
- A27. The nature of the particular control influences the type of procedure required to obtain audit evidence about whether the control was operating effectively. For example, if operating effectiveness is evidenced by documentation, the auditor may decide to inspect it to obtain audit evidence about operating effectiveness. For other controls, however, documentation may not be available or relevant. For example, documentation of operation may not exist for some factors in the control environment, such as assignment of authority and responsibility, or for some types of controls, such as

⁷ ISA (NZ) 315 (Revised 2019), paragraph 33.

ISA (NZ) 330

automated controls. In such circumstances, audit evidence about operating effectiveness may be obtained through enquiry in combination with other audit procedures such as observation or the use of CAATs.

Extent of tests of controls

A28. When more persuasive audit evidence is needed regarding the effectiveness of a control, it may be appropriate to increase the extent of testing of the control. As well as the degree of reliance on controls, matters the auditor may consider in determining the extent of tests of controls include the following:

- The frequency of the performance of the control by the entity during the period.
- The length of time during the audit period that the auditor is relying on the operating effectiveness of the control.
- The expected rate of deviation from a control.
- The relevance and reliability of the audit evidence to be obtained regarding the operating effectiveness of the control at the assertion level.
- The extent to which audit evidence is obtained from tests of other controls related to the assertion.

ISA (NZ) 530⁸ contains further guidance on the extent of testing.

A29. Because of the inherent consistency of IT processing, it may not be necessary to increase the extent of testing of an automated control. An automated control can be expected to function consistently unless the IT application (including the tables, files, or other permanent data used by the IT application) is changed. Once the auditor determines that an automated control is functioning as intended (which could be done at the time the control is initially implemented or at some other date), the auditor may consider performing tests to determine that the control continues to function effectively. Such tests may include testing the general IT controls related to the IT application.

A30. Similarly, the auditor may perform tests of controls that address risks of material misstatement related to the integrity of the entity's data, or the completeness and accuracy of the entity's system-generated reports, or to address risks of material misstatement for which substantive procedures alone cannot provide sufficient appropriate audit evidence. These tests of controls may include tests of general IT controls that address the matters in paragraph 10(a). When this is the case, the auditor may not need to perform any further testing to obtain audit evidence about the matters in paragraph 10(a).

A31. When the auditor determines that a general IT control is deficient, the auditor may consider the nature of the related risk(s) arising from the use of IT that were identified in accordance with ISA (NZ) 315 (Revised 2019)⁹ to provide the basis for the design of the auditor's additional procedures to address the assessed risk of material misstatement. Such procedures may address determining whether:

- The related risk(s) arising from IT has occurred. For example, if users have unauthorised access to an IT application (but cannot access or modify the system

⁸ ISA (NZ) 530, *Audit Sampling*.

⁹ ISA (NZ) 315 (Revised 2019), paragraph 26(c)(i)

ISA (NZ) 330

logs that track access), the auditor may inspect the system logs to obtain audit evidence that those users did not access the IT application during the period.

- There are any alternate or redundant general IT controls, or any other controls, that address the related risk(s) arising from the use of IT. If so, the auditor may identify such controls (if not already identified) and therefore evaluate their design, determine that they have been implemented and perform tests of their operating effectiveness. For example, if a general IT control related to user access is deficient, the entity may have an alternate control whereby IT management reviews end user access reports on a timely basis. Circumstances when an application control may address a risk arising from the use of IT may include when the information that may be affected by the general IT control deficiency can be reconciled to external sources (e.g., a bank statement) or internal sources not affected by the general IT control deficiency (e.g., a separate IT application or data source).

Testing of indirect controls (Ref: Para. 10(b))

A32. In some circumstances, it may be necessary to obtain audit evidence supporting the effective operation of indirect controls (e.g., general IT controls). As explained in paragraphs A29 to A31, general IT controls may have been identified in accordance with ISA (NZ) 315 (Revised 2019) because of their support of the operating effectiveness of automated controls or due to their support in maintaining the integrity of information used in the entity's financial reporting, including system-generated reports. The requirement in paragraph 10(b) acknowledges that the auditor may have already tested certain indirect controls to address the matters in paragraph 10(a).

Timing of Tests of Controls

Intended period of reliance (Ref: Para. 11)

A33. Audit evidence pertaining only to a point in time may be sufficient for the auditor's purpose, for example, when testing controls over the entity's physical inventory counting at the period end. If, on the other hand, the auditor intends to rely on a control over a period, tests that are capable of providing audit evidence that the control operated effectively at relevant times during that period are appropriate. Such tests may include tests of controls in the entity's process to monitor the system of internal controls.

Using audit evidence obtained during an interim period (Ref: Para. 12(b))

A34. Relevant factors in determining what additional audit evidence to obtain about controls that were operating during the period remaining after an interim period, include:

- The significance of the assessed risks of material misstatement at the assertion level.
- The specific controls that were tested during the interim period, and significant changes to them since they were tested, including changes in the information system, processes, and personnel.
- The degree to which audit evidence about the operating effectiveness of those controls was obtained.
- The length of the remaining period.

ISA (NZ) 330

- The extent to which the auditor intends to reduce further substantive procedures based on the reliance of controls.
- The control environment.

A35. Additional audit evidence may be obtained, for example, by extending tests of controls over the remaining period or testing the entity's monitoring of controls.

Using audit evidence obtained in previous audits (Ref: Para. 13)

A36. In certain circumstances, audit evidence obtained from previous audits may provide audit evidence where the auditor performs audit procedures to establish its continuing relevance and reliability. For example, in performing a previous audit, the auditor may have determined that an automated control was functioning as intended. The auditor may obtain audit evidence to determine whether changes to the automated control have been made that affect its continued effective functioning through, for example, enquiries of management and the inspection of logs to indicate what controls have been changed. Consideration of audit evidence about these changes may support either increasing or decreasing the expected audit evidence to be obtained in the current period about the operating effectiveness of the controls.

Controls that have changed from previous audits (Ref: Para. 14(a))

A37. Changes may affect the relevance and reliability of the audit evidence obtained in previous audits such that there may no longer be a basis for continued reliance. For example, changes in a system that enable an entity to receive a new report from the system probably do not affect the relevance of audit evidence from a previous audit; however, a change that causes data to be accumulated or calculated differently does affect it.

Controls that have not changed from previous audits (Ref: Para. 14(b))

A38. The auditor's decision on whether to rely on audit evidence obtained in previous audits for controls that:

- (a) Have not changed since they were last tested; and
- (b) Are not controls that mitigate a significant risk,

is a matter of professional judgement. In addition, the length of time between retesting such controls is also a matter of professional judgement, but is required by paragraph 14 (b) to be at least once in every third year.

A39. In general, the higher the risk of material misstatement, or the greater the reliance on controls, the shorter the time period elapsed, if any, is likely to be. Factors that may decrease the period for retesting a control, or result in not relying on audit evidence obtained in previous audits at all, include the following:

- A deficient control environment.
- A deficiency in the entity's process to monitor the system of internal controls.
- A significant manual element to controls.
- Personnel changes that significantly affect the application of the control.
- Changing circumstances that indicate the need for changes in the control.

- Deficient general IT-controls.

A40. When there are a number of controls for which the auditor intends to rely on audit evidence obtained in previous audits, testing some of those controls in each audit provides corroborating information about the continuing effectiveness of the control environment. This contributes to the auditor's decision about whether it is appropriate to rely on audit evidence obtained in previous audits.

Evaluating the Operating Effectiveness of Controls (Ref: Para. 16-17)

- A41. A material misstatement detected by the auditor's procedures is a strong indicator of the existence of a significant deficiency in internal control.
- A42. The concept of effectiveness of the operation of controls recognises that some deviations in the way controls are applied by the entity may occur. Deviations from prescribed controls may be caused by such factors as changes in key personnel, significant seasonal fluctuations in volume of transactions and human error. The detected rate of deviation, in particular in comparison with the expected rate, may indicate that the control cannot be relied on to reduce risk at the assertion level to that assessed by the auditor.

Substantive Procedures (Ref: Para. 6, 18)

A43. Paragraph 18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance, and disclosure. For significant classes of transactions, account balances and disclosures, substantive procedures may have already been performed because paragraph 6 requires the auditor to design and perform further audit procedures that are responsive to the assessed risks of material misstatement at the assertion level. Accordingly, substantive procedures are required to be designed and performed in accordance with paragraph 18:

- When the further audit procedures for significant classes of transactions, account balances or disclosures, designed and performed in accordance with paragraph 6, did not include substantive procedures; or
- For each class of transactions, account balance or disclosure that is not a significant class of transactions, account balance or disclosure, but that has been identified as material in accordance with ISA (NZ) 315 (Revised 2019).¹⁰

This requirement reflects the facts that: (i) the auditor's assessment of risk is judgemental and so may not identify all risks of material misstatement; and (ii) there are inherent limitations to controls, including management override.

A44. Not all assertions within a material class of transactions, account balance or disclosure are required to be tested. Rather, in designing the substantive procedures to be performed, the auditor's consideration of the assertion(s) in which, if a misstatement were to occur, there is a reasonable possibility of the misstatement being material, may assist in identifying the appropriate nature, timing and extent of the procedures to be performed.

Nature and extent of substantive procedures

¹⁰ ISA (NZ) 315 (Revised 2019), paragraph 36.

ISA (NZ) 330

A45. Depending on the circumstances, the auditor may determine that:

- Performing only substantive analytical procedures will be sufficient to reduce audit risk to an acceptably low level. For example, where the auditor's assessment of risk is supported by audit evidence from tests of controls.
- Only tests of details are appropriate.
- A combination of substantive analytical procedures and tests of details are most responsive to the assessed risks.

A46. Substantive analytical procedures are generally more applicable to large volumes of transactions that tend to be predictable over time. ISA (NZ) 520¹¹ establishes requirements and provides guidance on the application of analytical procedures during an audit.

A47. The assessment of the risk or the nature of the assertion is relevant to the design of tests of details. For example, tests of details related to the existence or occurrence assertion may involve selecting from items contained in a financial statement amount and obtaining the relevant audit evidence. On the other hand, tests of details related to the completeness assertion may involve selecting from items that are expected to be included in the relevant financial statement amount and investigating whether they are included.

A48. Because the assessment of the risk of material misstatement takes account of controls that the auditor plans to test, the extent of substantive procedures may need to be increased when the results from tests of controls are unsatisfactory. However, increasing the extent of an audit procedure is appropriate only if the audit procedure itself is relevant to the specific risk.

A49. In designing tests of details, the extent of testing is ordinarily thought of in terms of the sample size. However, other matters are also relevant, including whether it is more effective to use other selective means of testing. See ISA (NZ) 500.¹²

Considering Whether External Confirmation Procedures Are to Be Performed (Ref: Para. 19)

A50. External confirmation procedures frequently are relevant when addressing assertions associated with account balances and their elements, but need not be restricted to these items. For example, the auditor may request external confirmation of the terms of agreements, contracts, or transactions between an entity and other parties. External confirmation procedures also may be performed to obtain audit evidence about the absence of certain conditions. For example, a request may specifically seek confirmation that no "side agreement" exists that may be relevant to an entity's revenue cut-off assertion. Other situations where external confirmation procedures may provide relevant audit evidence in responding to assessed risks of material misstatement include:

- Bank balances and other information relevant to banking relationships.
- Accounts receivable balances and terms.

¹¹ ISA (NZ) 520, *Analytical Procedures*.

¹² ISA (NZ) 500, *Audit Evidence*, paragraph 10.

ISA (NZ) 330

- Inventories held by third parties at bonded warehouses for processing or on consignment.
- Property title deeds held by lawyers or financiers for safe custody or as security.
- Investments held for safekeeping by third parties, or purchased from stockbrokers but not delivered at the balance sheet date.
- Amounts due to lenders, including relevant terms of repayment and restrictive covenants.
- Accounts payable balances and terms.

A51. Although external confirmations may provide relevant audit evidence relating to certain assertions, there are some assertions for which external confirmations provide less relevant audit evidence. For example, external confirmations provide less relevant audit evidence relating to the recoverability of accounts receivable balances, than they do of their existence.

A52. The auditor may determine that external confirmation procedures performed for one purpose provide an opportunity to obtain audit evidence about other matters. For example, confirmation requests for bank balances often include requests for information relevant to other financial statement assertions. Such considerations may influence the auditor's decision about whether to perform external confirmation procedures.

A53. Factors that may assist the auditor in determining whether external confirmation procedures are to be performed as substantive audit procedures include:

- The confirming party's knowledge of the subject matter – responses may be more reliable if provided by a person at the confirming party who has the requisite knowledge about the information being confirmed.
- The ability or willingness of the intended confirming party to respond – for example, the confirming party:
 - May not accept responsibility for responding to a confirmation request;
 - May consider responding too costly or time consuming;
 - May have concerns about the potential legal liability resulting from responding;
 - May account for transactions in different currencies; or
 - May operate in an environment where responding to confirmation requests is not a significant aspect of day-to-day operations.

In such situations, confirming parties may not respond, may respond in a casual manner or may attempt to restrict the reliance placed on the response.

- The objectivity of the intended confirming party – if the confirming party is a related party of the entity, responses to confirmation requests may be less reliable.

Substantive Procedures Related to the Financial Statement Closing Process (Ref: Para. 20)

A54. The nature, and also the extent, of the auditor's substantive procedures related to the financial statement closing process depends on the nature and complexity of the entity's financial reporting process and the related risks of material misstatement.

Substantive Procedures Responsive to Significant Risks (Ref: Para. 21)

A55. Paragraph 21 of this ISA (NZ) requires the auditor to perform substantive procedures that are specifically responsive to risks the auditor has determined to be significant risks. Audit evidence in the form of external confirmations received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error. For example, if the auditor identifies that management is under pressure to meet earnings expectations, there may be a risk that management is inflating sales by improperly recognising revenue related to sales agreements with terms that preclude revenue recognition or by invoicing sales before shipment. In these circumstances, the auditor may, for example, design external confirmation procedures not only to confirm outstanding amounts, but also to confirm the details of the sales agreements, including date, any rights of return and delivery terms. In addition, the auditor may find it effective to supplement such external confirmation procedures with enquiries of non-financial personnel in the entity regarding any changes in sales agreements and delivery terms.

Timing of Substantive Procedures (Ref: Para. 22-23)

A56. In most cases, audit evidence from a previous audit's substantive procedures provides little or no audit evidence for the current period. There are, however, exceptions, for example, a legal opinion obtained in a previous audit related to the structure of a securitisation to which no changes have occurred, may be relevant in the current period. In such cases, it may be appropriate to use audit evidence from a previous audit's substantive procedures if that evidence and the related subject matter have not fundamentally changed, and audit procedures have been performed during the current period to establish its continuing relevance.

Using audit evidence obtained during an interim period (Ref: Para. 22)

A57. In some circumstances, the auditor may determine that it is effective to perform substantive procedures at an interim date, and to compare and reconcile information concerning the balance at the period end with the comparable information at the interim date to:

- (a) Identify amounts that appear unusual;
- (b) Investigate any such amounts; and
- (c) Perform substantive analytical procedures or tests of details to test the intervening period.

A58. Performing substantive procedures at an interim date without undertaking additional procedures at a later date increases the risk that the auditor will not detect misstatements that may exist at the period end. This risk increases as the remaining period is lengthened. Factors such as the following may influence whether to perform substantive procedures at an interim date:

- The control environment and other controls.
- The availability at a later date of information necessary for the auditor's procedures.

- The purpose of the substantive procedure.
- The assessed risk of material misstatement.
- The nature of the class of transactions or account balance and related assertions.
- The ability of the auditor to perform appropriate substantive procedures or substantive procedures combined with tests of controls to cover the remaining period in order to reduce the risk that misstatements that may exist at the period end will not be detected.

A59. Factors such as the following may influence whether to perform substantive analytical procedures with respect to the period between the interim date and the period end:

- Whether the period end balances of the particular classes of transactions or account balances are reasonably predictable with respect to amount, relative significance, and composition.
- Whether the entity's procedures for analysing and adjusting such classes of transactions or account balances at interim dates and for establishing proper accounting cutoffs are appropriate.
- Whether the information system will provide information concerning the balances at the period end and the transactions in the remaining period that is sufficient to permit investigation of:
 - (a) Significant unusual transactions or entries (including those at or near the period end),
 - (b) Other causes of significant fluctuations, or expected fluctuations that did not occur, and
 - (c) Changes in the composition of the classes of transactions or account balances.

Misstatements detected at an interim date (Ref: Para. 23)

A60. When the auditor concludes that the planned nature, timing, or extent of substantive procedures covering the remaining period need to be modified as a result of unexpected misstatements detected at an interim date, such modification may include extending or repeating the procedures performed at the interim date at the period end.

Adequacy of Presentation of the Financial Statements (Ref: Para. 24)

A61. Evaluating the appropriate presentation, arrangement and content of the financial statements, includes, for example, consideration of the terminology used as required by the applicable financial reporting framework, the level of detail provided, the aggregation and disaggregation of amounts and the bases of amounts set forth.

Evaluating the Sufficiency and Appropriateness of Audit Evidence (Ref: Para. 25-27)

A62. An audit of financial statements is a cumulative and iterative process. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing, or extent of other planned audit procedures. Information may come to the auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

ISA (NZ) 330

- The extent of misstatements that the auditor detects by performing substantive procedures may alter the auditor's judgement about the risk assessments and may indicate a significant deficiency in internal control.
- The auditor may become aware of discrepancies in accounting records, or conflicting or missing evidence.
- Analytical procedures performed at the overall review stage of the audit may indicate a previously unrecognised risk of material misstatement.

In such circumstances, the auditor may need to re-evaluate the planned audit procedures, based on the revised consideration of assessed risks of material misstatement, whether due to fraud or error, and the effect on the significant classes of transactions, account balances, or disclosures and their relevant assertions. ISA (NZ) 315 (Revised 2019) contains further guidance on revising the auditor's risk assessment.¹³

A63. The auditor cannot assume that an instance of fraud or error is an isolated occurrence. Therefore, the consideration of how the detection of a misstatement affects the assessed risks of material misstatement is important in determining whether the assessment remains appropriate.

A64. The auditor's judgement as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:

- Significance of the potential misstatement in the assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial statements.
- Effectiveness of management's responses and controls to address the risks.
- Experience gained during previous audits with respect to similar potential misstatements.
- Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.
- Source and reliability of the available information.
- Persuasiveness of the audit evidence.
- Understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control.

Documentation (Ref: Para. 28)

A65. The form and extent of audit documentation is a matter of professional judgement, and is influenced by the nature, size and complexity of the entity and its system of internal control, availability of information from the entity and the audit methodology and technology used in the audit.

¹³ ISA (NZ) 315 (Revised 2019), paragraph 53.

ISA (NZ) 330**ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING**

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 330.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 330 *The Auditor's Responses to Assessed Risks*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix "NZ".

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 330.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 330 *The Auditor's Responses to Assessed Risks*.

ASA 330 conforms to ISA 330.

The following requirement is additional to ISA 330 and ISA (NZ) 330:

- Where the auditor plans to use audit evidence from the performance of substantive procedures in a prior audit, the auditor shall perform audit procedures during the current period to establish the continuing relevance of the audit evidence. [Paragraph Aus 21.1]

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 330 <i>The Auditor's Responses to Assessed Risks</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 450

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

~~Issued July 2011~~

~~This compilation was prepared in June 2021 and incorporates amendments up to and including June 2020.~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 450 issued by the External Reporting Board in July 2011.~~

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-13-5

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 450 *Evaluation of Misstatements Identified during the Audit* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 450 issued by the External Reporting Board in July 2011 (as amended to February 2020).

The revision of ISA (NZ) 450 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 450

EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Commencement and Application	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1
Effective Date	2
Objective	3
Definitions	4
Requirements	
Accumulation of Identified Misstatements	5
Consideration of Identified Misstatements as the Audit Progresses	~~6-7~~ 8
Communication and Correction of Misstatements	~~8-9~~ 9-10
Evaluating the Effect of Uncorrected Misstatements	~~10-13~~ 11-14
Written Representation	~~14~~ 15
Documentation	~~15~~ 16
Application and Other Explanatory Material	
Definition of Misstatements	A1
Accumulation of Identified Misstatements	A2-A6
Consideration of Identified Misstatements as the Audit Progresses	A7-A ~~9~~ 10
Communication and Correction of Misstatements	~~A10~~ A11-A ~~14~~ 13
Evaluating the Effect of Uncorrected Misstatements	A ~~14~~ 15- A ~~28~~ 29
Written Representation	~~A29~~ A30
Documentation	~~A30~~ A31
Accompanying Attachment: Conformity to the International Standards on Auditing	

ISA (NZ) 450

International Standard on Auditing (New Zealand) (ISA (NZ)) 450, *“Evaluation of Misstatements Identified During the Audit”* should be read in conjunction with ISA (NZ) 200, *“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)”*.

ISA (NZ) 450

History of Amendments

Table of pronouncements – ISA (NZ) 450 *Evaluation of Misstatements Identified during the Audit*

This table lists the pronouncements establishing and amending ISA (NZ) 450.

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 450	~~July 2011~~ <u>October 2025</u>	~~This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September, 2011. Periods beginning on or after 15 December 2026, refer commencement and application section.~~
Use of management and those charged with governance	December 2013	Effective for audits of financial statements for periods beginning on or after 1 July 2014
Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures	September 2015	Effective for audits of financial statements for periods ending on or after 15 December 2016.
Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting)	September 2015	Effective for audits of financial statements for periods ending on or after 15 December 2016.
Conforming Amendments to ISAs (NZ) and Other Pronouncements (NOCLAR)	October 2016	Effective for audits of financial statements for periods ending on or after 15 December 2017.
Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)	February 2020	Effective for audits of financial statements for periods beginning on or after 15 December 2021

Table of Amended Paragraphs in ISA (NZ) 450		
Paragraph affected	How affected	By...[date]
Various	Amended	Use of management and those charged with governance [Dec 2013]
A3–A5, A6, A10, A17, A18, 4, A1, A2, A16, A22	Inserted Amended	Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures [Sept 2015]

ISA (NZ) 450

A21	Amended	Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting) [Sept 2015]
8, A11	Amended	Conforming Amendments to ISAs (NZ) and Other Pronouncements (NOCLAR) [Oct 2016]
A28 Footnotes 4, 8, 11, 16, 18, 19	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements. ISA (NZ) 700 (Revised) deals with the auditor's responsibility, in forming an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. The auditor's conclusion required by ISA (NZ) 700 (Revised) takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with this ISA (NZ).² ISA (NZ) 320³ deals with the auditor's responsibility to apply the concept of materiality appropriately in planning and performing an audit of financial statements.

Effective Date

2. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Replaced by the NZAuASB. Refer to paragraph 0.1 -0.2]~~

NZ 2.1 This Standard repeals ISA (NZ) 450 *Evaluation of Misstatements Identified During the Audit* issued in July 2011.

Objective

3. The objective of the auditor is to evaluate:
 - (a) The effect of identified misstatements on the audit; and
 - (b) The effect of uncorrected misstatements, if any, on the financial statements.

Definitions

4. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Misstatement – A difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. (Ref: Para. A1)

When the auditor expresses an opinion on whether the financial statements give a true and fair view or are presented fairly, in all material respects, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgement, are necessary for the financial statements to give a true and fair view of or present fairly, the matters to which they relate, in all material respects.
 - (b) Uncorrected misstatements – Misstatements that the auditor has accumulated during the audit and that have not been corrected.

² ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 10-11.

³ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*.

Requirements

Accumulation of Identified Misstatements

5. The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. (Ref: Para. A2-A6)

Consideration of Identified Misstatements as the Audit Progresses

6. If the auditor identifies a misstatement, the auditor shall evaluate whether such a misstatement is indicative of fraud. (Ref: Para. A7)
67. The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:
 - (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or (Ref: Para. A78)
 - (b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with ISA (NZ) 320. (Ref: Para. A89)
78. If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain. (Ref: Para. A910)

Communication and Correction of Misstatements

89. The auditor shall communicate, unless prohibited by law or regulation, on a timely basis all misstatements accumulated during the audit with the appropriate level of management.⁴ The auditor shall request management to correct those misstatements. (Ref: Para. ~~A10-A12~~A11-A13)
910. If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement. (Ref: Para. ~~A13~~A14)

Evaluating the Effect of Uncorrected Misstatements

- ~~1011~~. Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with ISA (NZ) 320 to confirm whether it remains appropriate in the context of the entity's actual financial results. (Ref: Para. ~~A14-A15~~A15-A16)
- ~~1112~~. The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:
 - (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a

⁴ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 7

whole, and the particular circumstances of their occurrence; and (Ref: Para. ~~A16-A22, A24-A25~~[A17-A23, A25-A26](#))

- (b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. (Ref: Para. ~~A23~~[A24](#))

Communication with Those Charged with Governance

~~42~~[13](#). The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation.⁵ The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected. (Ref: Para. ~~A26-A28~~[A27-A28](#))

~~13~~[14](#). The auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

Written Representation

~~14~~[15](#). [Amended by the NZAuASB.]

~~NZ14~~[15](#).1 The auditor shall request a written representation from those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation. (Ref: Para. ~~A29~~[30](#))

Documentation

~~15~~[16](#). The audit shall include in the audit documentation:⁶ (Ref: Para. ~~A30~~[31](#))

- (a) The amount below which misstatements would be regarded as clearly trivial (paragraph 5);
- (b) All misstatements accumulated during the audit and whether they have been corrected (paragraphs 5, ~~89~~[89](#) and ~~42~~[13](#)); and
- (c) The auditor's conclusion as to whether uncorrected misstatements are material, individually or in aggregate, and the basis for that conclusion (paragraph ~~44~~[12](#)).

⁵ See footnote 5.

⁶ ISA (NZ) 230, *Audit Documentation*, paragraphs 8-11, and paragraph A6.

Application and Other Explanatory Material

Definition of Misstatements (Ref: Para. 4(a))

A1. Misstatements may result from:

- (a) An inaccuracy in gathering or processing data from which the financial statements are prepared;
- (b) An omission of an amount or disclosure, including inadequate or incomplete disclosures, and those disclosures required to meet disclosure objectives of certain financial reporting frameworks as applicable⁷;
- (c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts;
- (d) Judgements of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate;
- (e) An inappropriate classification, aggregation or disaggregation, of information; and
- (f) For financial statements prepared in accordance with a fair presentation framework, the omission of a disclosure necessary for the financial statements to achieve fair presentation beyond disclosures specifically required by the framework.⁸

Examples of misstatements arising from fraud are provided in ISA (NZ) 240.⁹

Accumulation of Identified Misstatements (Ref: Para. 5)

“Clearly Trivial”

A2. Paragraph 5 of this ISA (NZ) requires the auditor to accumulate misstatements identified during the audit other than those that are clearly trivial. “Clearly trivial” is not another expression for “not material.” Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial.

⁷ For example, New Zealand equivalent to International Financial Reporting Standard (NZ IFRS) 7, *Financial Instruments: Disclosures*, paragraph 42H states that “an entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph...”

⁸ For example, NZ IFRS requires an entity to provide additional disclosures when compliance with the specific requirements in NZ IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance ([New Zealand equivalent to International Accounting Standard 1, Presentation of Financial Statements, paragraph 17\(c\)](#)) [New Zealand equivalent to International Accounting Standard 8, Basis of Preparation of Financial Statements, paragraph 6C \(c\)](#)).

⁹ ISA (NZ) 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs [A1-A5](#) [A2-A6](#).

Misstatements in Individual Statements

- A3. The auditor may designate an amount below which misstatements of amounts in the individual statements would be clearly trivial, and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial statements. However, misstatements of amounts that are above the designated amount are accumulated as required by paragraph 5 of this ISA (NZ). In addition, misstatements relating to amounts may not be clearly trivial when judged on criteria of nature or circumstances, and, if not, are accumulated as required by paragraph 5 of this ISA (NZ).

Misstatements in Disclosures

- A4. Misstatements in disclosures may also be clearly trivial whether taken individually or in aggregate, and whether judged by any criteria of size, nature or circumstances. Misstatements in disclosures that are not clearly trivial are also accumulated to assist the auditor in evaluating the effect of such misstatements on the relevant disclosures and the financial statements as a whole. Paragraph A4718 of this ISA (NZ) provides examples of where misstatements in qualitative disclosures may be material.

Accumulation of Misstatements

- A5. Misstatements by nature or circumstances, accumulated as described in paragraphs A3–A4, cannot be added together as is possible in the case of misstatements of amounts. Nevertheless, the auditor is required by paragraph 4412 of this ISA (NZ) to evaluate those misstatements individually and in aggregate (i.e., collectively with other misstatements) to determine whether they are material.
- A6. 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) 530.¹⁰

Consideration of Identified Misstatements as the Audit Progresses (Ref: Para. 6-77-8)

A7. The nature of identified misstatements and the circumstances of their occurrence may indicate that the misstatements may be a result of fraud. In such cases, the auditor also

¹⁰ ISA (NZ) 530, *Audit Sampling*, paragraphs 14-15.

performs the procedures required by ISA 240 (Revised),¹¹ recognizing that an instance of fraud is unlikely to be an isolated occurrence.

- A78. A misstatement may not be an isolated occurrence. Evidence that other misstatements may exist include, for example, where the auditor identifies that a misstatement arose from a breakdown in internal control or from inappropriate assumptions or valuation methods that have been widely applied by the entity.
- A89. If the aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with ISA (NZ) 320, there may be a greater than acceptably low level of risk that possible undetected misstatements, when taken with the aggregate of misstatements accumulated during the audit, could exceed materiality. Undetected misstatements could exist because of the presence of sampling risk and non-sampling risk.¹²
- A910. The auditor may request management to examine a class of transactions, account balance or disclosure in order for management to understand the cause of a misstatement identified by the auditor, perform procedures to determine the amount of the actual misstatement in the class of transactions, account balance or disclosure, and to make appropriate adjustments to the financial statements. Such a request may be made, for example, based on the auditor's projection of misstatements identified in an audit sample to the entire population from which it was drawn.

Communication and Correction of Misstatements (Ref: Para. 8-99-10)

- A4011. Timely communication of misstatements to the appropriate level of management is important as it enables management to evaluate whether the classes of transactions, account balances and disclosures are misstated, inform the auditor if it disagrees, and take action as necessary. Ordinarily, the appropriate level of management is the one that has responsibility and authority to evaluate the misstatements and to take the necessary action.
- A412. In some jurisdictions, law or regulation may restrict the auditor's communication of certain misstatements to management, or others, within the entity. Laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with law or regulation to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.
- A4213. The correction by management of all misstatements, including those communicated by the auditor, enables management to maintain accurate accounting books and records and reduces the risks of material misstatement of future financial statements because of the cumulative effect of immaterial uncorrected misstatements related to prior periods.

¹¹ [ISA \(NZ\) 240, paragraphs 55–58](#)

¹² [ISA \(NZ\) 530, paragraphs 5\(c\)-\(d\).](#)

A1314. ISA (NZ) 700 (Revised) requires the auditor to evaluate whether the financial statements are prepared and presented, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation includes consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible management bias,¹³ which may be affected by the auditor's understanding of management's reasons for not making the corrections.

Evaluating the Effect of Uncorrected Misstatements (Ref: Para. 40-411-12)

A1415. The auditor's determination of materiality in accordance with ISA (NZ) 320 is often based on estimates of the entity's financial results, because the actual financial results may not yet be known. Therefore, prior to the auditor's evaluation of the effect of uncorrected misstatements, it may be necessary to revise materiality determined in accordance with ISA (NZ) 320 based on the actual financial results.

A1516. ISA (NZ) 320 explains that, as the audit progresses, materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) is revised in the event of the auditor becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially.¹⁴ Thus, any significant revision is likely to have been made before the auditor evaluates the effect of uncorrected misstatements. However, if the auditor's reassessment of materiality determined in accordance with ISA (NZ) 320 (see paragraph 4011 of this ISA (NZ)) gives rise to a lower amount (or amounts), then performance materiality and the appropriateness of the nature, timing and extent of the further audit procedures are reconsidered so as to obtain sufficient appropriate audit evidence on which to base the audit opinion.

A1617. Each individual misstatement of an amount is considered to evaluate its effect on the relevant classes of transactions, account balances or disclosures, including whether the materiality level for that particular class of transactions, account balance or disclosure, if any, has been exceeded.

A1718. In addition, each individual misstatement of a qualitative disclosure is considered to evaluate its effect on the relevant disclosure(s), as well as its overall effect on the financial statements as a whole. The determination of whether a misstatement(s) in a qualitative disclosure is material, in the context of the applicable financial reporting framework and the specific circumstances of the entity, is a matter that involves the exercise of professional judgement. Examples where such misstatements may be material include:

- Inaccurate or incomplete descriptions of information about the objectives, policies and processes for managing capital for entities with insurance and banking activities.
- The omission of information about the events or circumstances that have led to an impairment loss (e.g., a significant long-term decline in the demand for a metal or commodity) in an entity with mining operations.

¹³ ISA (NZ) 700 (Revised), paragraph 12.

¹⁴ ISA (NZ) 320, paragraph 12.

- [Inadequate disclosures about the entity's ability to continue as a going concern](#)¹⁵
- The incorrect description of an accounting policy relating to a significant item in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows.
- The inadequate description of the sensitivity of an exchange rate in an entity that undertakes international trading activities.

[A1819](#). In determining whether uncorrected misstatements by nature are material as required by paragraph [4412](#) of this ISA (NZ), the auditor considers uncorrected misstatements in amounts and disclosures. Such misstatements may be considered material either individually, or when taken in combination with other misstatements. For example, depending on the misstatements identified in disclosures, the auditor may consider whether:

- (a) Identified errors are persistent or pervasive; or
- (b) A number of identified misstatements are relevant to the same matter, and considered collectively may affect the users' understanding of that matter.

This consideration of accumulated misstatements is also helpful when evaluating the financial statements in accordance with paragraph 13(d) of ISA (NZ) 700 (Revised),¹⁶ which requires the auditor to consider whether the overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed.

[A1920](#). If an individual misstatement is judged to be material, it is unlikely that it can be offset by other misstatements. For example, if revenue has been materially overstated, the financial statements as a whole will be materially misstated, even if the effect of the misstatement on earnings is completely offset by an equivalent overstatement of expenses. It may be appropriate to offset misstatements within the same account balance or class of transactions; however, the risk that further undetected misstatements may exist is considered before concluding that offsetting even immaterial misstatements is appropriate.¹⁷

[A2021](#). Determining whether a classification misstatement is material involves the evaluation of qualitative considerations, such as the effect of the classification misstatement on debt or other contractual covenants, the effect on individual line items or sub-totals, or the effect on key ratios. There may be circumstances where the auditor concludes that a classification misstatement is not material in the context of the financial statements as a whole, even though it may exceed the materiality level or levels applied in evaluating other misstatements. For example, a misclassification between balance sheet line items may not be considered material in the context of the financial statements as a whole when the amount of the misclassification is small in relation to the size of the related balance sheet line items and the misclassification does not affect the income statement or any key ratios.

¹⁵ [ISA \(NZ\) 570, Going Concern, paragraphs 32-33](#)

¹⁶ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

¹⁷ The identification of a number of immaterial misstatements within the same account balance or class of transactions may require the auditor to reassess the risk of material misstatement for that account balance or class of transactions.

[A2422](#). The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the financial statements as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement:

- Affects compliance with regulatory requirements;
- Affects compliance with debt covenants or other contractual requirements;
- Relates to the incorrect selection or application of an accounting policy that has an immaterial effect on the current period's financial statements but is likely to have a material effect on future periods' financial statements;
- Masks a change in earnings or other trends, especially in the context of general economic and industry conditions;
- Affects ratios used to evaluate the entity's financial position, results of operations or cash flows;
- Affects segment information presented in the financial statements (for example, the significance of the matter to a segment or other portion of the entity's business that has been identified as playing a significant role in the entity's operations or profitability);
- Has the effect of increasing management compensation, for example, by ensuring that the requirements for the award of bonuses or other incentives are satisfied;
- Is significant having regard to the auditor's understanding of known previous communications to users, for example, in relation to forecast earnings;
- Relates to items involving particular parties (for example, whether external parties to the transaction are related to members of the entity's management);
- Is an omission of information not specifically required by the applicable financial reporting framework but which, in the judgement of the auditor, is important to the users' understanding of the financial position, financial performance or cash flows of the entity; or
- Affects other information to be included in the entity's annual report (for example, information to be included in a "Management Discussion and Analysis" or an "Operating and Financial Review") that may reasonably be expected to influence the economic decisions of the users of the financial statements. ISA (NZ) 720 (Revised)¹⁸ deals with the auditor's responsibilities relating to other information.

These circumstances are only examples; not all are likely to be present in all audits nor is the list necessarily complete. The existence of any circumstances such as these does not necessarily lead to a conclusion that the misstatement is material.

[A2223](#). ISA (NZ) 240¹⁹ explains how the implications of a misstatement that is, or may be, the result of fraud ought to be considered in relation to other aspects of the audit, even if the size of the misstatement is not material in relation to the financial statements.

¹⁸ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

¹⁹ ISA (NZ) 240, paragraph [3557](#).

ISA (NZ) 450

Depending on the circumstances, misstatements in disclosures could also be indicative of fraud, and, for example, may arise from:

- Misleading disclosures that have resulted from bias in management's judgements; or
- Extensive duplicative or uninformative disclosures that are intended to obscure proper understanding of matters in the financial statements.

When considering the implications of misstatements in transactions, account balances and disclosures, the auditor exercises professional scepticism in accordance with ISA (NZ) 200.²⁰

A2324. The cumulative effect of immaterial uncorrected misstatements related to prior periods may have a material effect on the current period's financial statements. There are different acceptable approaches to the auditor's evaluation of such uncorrected misstatements on the current period's financial statements. Using the same evaluation approach provides consistency from period to period.

Considerations Specific to Public Sector Entities

A2425. In the case of an audit of a public sector entity, the evaluation whether a misstatement is material may also be affected by the auditor's responsibilities established by law, regulation or other authority to report specific matters, including, for example, fraud.

A2526. Furthermore, issues such as public interest, accountability, probity and ensuring effective legislative oversight, in particular, may affect the assessment whether an item is material by virtue of its nature. This is particularly so for items that relate to compliance with law, regulation or other authority.

Communication with Those Charged with Governance (Ref: Para. [4213](#))

A2627. If uncorrected misstatements have been communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, they need not be communicated again with those same person(s) in their governance role. The auditor nonetheless has to be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity.²¹

A2728. Where there is a large number of individual immaterial uncorrected misstatements, the auditor may communicate the number and overall monetary effect of the uncorrected misstatements, rather than the details of each individual uncorrected misstatement.

A2829. ISA (NZ) 260 requires the auditor to communicate with those charged with governance the written representations the auditor is requesting (see paragraph [4415](#) of this ISA (NZ)).²² The auditor may discuss with those charged with governance the reasons for, and the implications of, a failure to correct misstatements, having regard to

²⁰ ISA (NZ) 200, paragraph [175](#).

²¹ ISA (NZ) 260, paragraph 13.

²² ISA (NZ) 260, paragraph 16(c)(ii).

the size and nature of the misstatement judged in the surrounding circumstances, and possible implications in relation to future financial statements.

Written Representation (Ref: Para. [4415](#))

[A2930](#). Because the preparation of the financial statements requires management and, where appropriate, those charged with governance to adjust the financial statements to correct material misstatements, the auditor is required to request them to provide a written representation about uncorrected misstatements. In some circumstances, management and, where appropriate, those charged with governance may not believe that certain uncorrected misstatements are misstatements. For that reason, they may want to add to their written representation words such as: “We do not agree that items ... and ... constitute misstatements because [description of reasons].” Obtaining this representation does not, however, relieve the auditor of the need to form a conclusion on the effect of uncorrected misstatements.

Documentation (Ref: Para. [4516](#))

[A3031](#). The auditor’s documentation of uncorrected misstatements may take into account:

- (a) The consideration of the aggregate effect of uncorrected misstatements;
- (b) The evaluation of whether the materiality level or levels for particular classes of transactions, account balances or disclosures, if any, have been exceeded; and
- (c) The evaluation of the effect of uncorrected misstatements on key ratios or trends, and compliance with legal, regulatory and contractual requirements (for example, debt covenants).

ISA (NZ) 450

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 450.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 450 *Evaluation of Misstatements Identified during the Audit*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

References to “management” and “those charged with governance” have been amended in the ISAs (NZ) because the statutory responsibility for the preparation of the financial statements rests with those charged with governance. ~~-The ISAs require the auditor to obtain written representation from management.-~~ The ISAs (NZ) require written representations from those charged with governance. ~~-Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.~~

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 450.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 450 *Evaluation of Misstatements Identified during the Audit*.

ASA 450 conforms to ISA 450.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 450 <i>Evaluation of Misstatements Identified during the Audit</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12 (b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 500

Audit Evidence ~~(ISA (NZ) 500)~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in May 2022 and incorporates amendments up to and including July 2021.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 500 issued by the External Reporting Board in July 2011.~~

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-14-2

Explanatory note

This note is not part of the **Standard**.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 500 *Audit Evidence* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 500 issued by the External Reporting Board in July 2011 (as amended to July 2021).

The revision of ISA (NZ) 500 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the **Standard**.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This **Standard** reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 500

AUDIT EVIDENCE

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1-2
Effective Date	3
Objective	4
Definitions	5
Requirements	
Sufficient Appropriate Audit Evidence	6
Information to Be Used as Audit Evidence	7-9
Selecting Items for Testing to Obtain Audit Evidence	10
Inconsistency in, or Doubts over Reliability of, Audit Evidence	11
Application and Other Explanatory Material	
Sufficient Appropriate Audit Evidence	A1-NZA29.1
Information to Be Used as Audit Evidence	A30-A62
Selecting Items for Testing to Obtain Audit Evidence	A63-A67
Inconsistency in, or Doubts over Reliability of, Audit Evidence	A68
<u>Accompanying Attachment: Conformity to the International Standards on Auditing</u>	

International Standard on Auditing (New Zealand) (ISA (NZ)) 500, *Audit Evidence* should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

ISA (NZ) 500

History of Amendments

Table of pronouncements – ISA (NZ) 500 *Audit Evidence*

This table lists the pronouncements establishing and amending ISA (NZ) 500.

Pronouncements	Date approved	~~Application~~ Effective date
International Standard on Auditing (New Zealand) 500	~~October 2025~~ July 2011	Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September 2011.
International Standard on Auditing (New Zealand) 610 (Revised 2013) <i>Using the Work of Internal Auditors</i>	April 2013	Effective for audits of financial statements for periods ending on or after 15 December 2013
Use of management and those charged with governance	December 2013	Effective for audits of financial statements for periods beginning on or after 1 July 2014
Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting)	September 2015	Effective for audits of financial statements for periods ending on or after 15 December 2016.
Conforming Amendments to ISAs (NZ) and Other Pronouncements (NOCLAR)	October 2016	Effective for audits of financial statements for periods ending on or after 15 December 2017.
Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates)	October 2018	Effective for audits of financial statements for periods beginning on or after 15 December 2019.
Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)	February 2020	Effective for audits of financial statements for periods beginning on or after 15 December 2021
Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects	July 2021	Effective for audits of financial statements for periods beginning on or after 15 December 2022

ISA (NZ) 500

Table of Amended Paragraphs in ISA (NZ) 500		
Paragraph-affected	How-affected	By...[date]
2, A10, A51, A57	Amended	ISA (NZ) 610 (Revised 2013) [April 2013]
Various	Amended	Use of management and those charged with governance [Dec 2013]
5	Amended	Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting) [Sept 2015]
7, A26 A34	Amended Inserted	Conforming Amendments to ISAs (NZ) and Other Pronouncements (NOCLAR) [Oct 2016]
5(d), A1-A4, A39-A44 5, 7, A5, A13, A35, A36, A59	Inserted Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Estimates) [Oct 2018]
2, A5, A14, A21, A42 Footnotes 1, 9	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)
A5, A30	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]

Commencement and **A**pplication

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.
2. This ISA (NZ) is applicable to all the audit evidence obtained during the course of the audit. Other ISAs (NZ) deal with specific aspects of the audit (for example, ISA (NZ) 315 (Revised 2019)²), the audit evidence to be obtained in relation to a particular topic (for example, ISA (NZ) 570³), specific procedures to obtain audit evidence (for example, ISA (NZ) 520⁴), and the evaluation of whether sufficient appropriate audit evidence has been obtained (ISA (NZ) 200⁵ and ISA (NZ) 330⁶).

Effective Date

3. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ 3.1 This Standard repeals ISA (NZ) 500 Audit Evidence issued in July 2011.

Objective

4. The objective of the auditor is to design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

Definitions

5. For purposes of this ISA (NZ), the following terms have the meanings attributed below:
 - (a) Accounting records – The records of initial accounting entries and supporting records, such as cheques and records of electronic fund transfers; invoices; contracts; the general and subsidiary ledgers, journal entries and other adjustments to the financial statements that are not reflected in journal entries; and records such as work sheets and spreadsheets supporting cost allocations, computations, reconciliations and disclosures.
 - (b) Appropriateness (of audit evidence) – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based.

² ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³ ISA (NZ) 570 (Revised), *Going Concern*

⁴ ISA (NZ) 520, *Analytical Procedures*

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

⁶ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

ISA (NZ) 500

- (c) Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and information obtained from other sources.
- (d) External information source – An external individual or organisation that provides information that has been used by the entity in preparing the financial statements, or that has been obtained by the auditor as audit evidence, when such information is suitable for use by a broad range of users. When information has been provided by an individual or organisation acting in the capacity of a management’s expert, service organisation⁷, or auditor’s expert⁸ the individual or organisation is not considered an external information source with respect to that particular information. (Ref: Para. A1-A4)
- (e) Management’s expert – An individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.
- (f) Sufficiency (of audit evidence) – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence.

Requirements**Sufficient Appropriate Audit Evidence**

6. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. A5-A29)

Information to Be Used as Audit Evidence

7. When designing and performing audit procedures, the auditor shall consider the relevance and reliability of the information to be used as audit evidence, including information obtained from an external information source. (Ref: Para. A30-A44)
8. If information to be used as audit evidence has been prepared using the work of a management’s expert, the auditor shall, to the extent necessary, having regard to the significance of that expert’s work for the auditor’s purposes: (Ref: Para. A45-A47)
 - (a) Evaluate the competence, capabilities and objectivity of that expert; (Ref: Para. A48-A54)
 - (b) Obtain an understanding of the work of that expert; and (Ref: Para. A55-A58)
 - (c) Evaluate the appropriateness of that expert’s work as audit evidence for the relevant assertion. (Ref: Para. A59)
9. When using information produced by the entity, the auditor shall evaluate whether the information is sufficiently reliable for the auditor’s purposes, including as necessary in the circumstances:

⁷ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*, paragraph 8

⁸ ISA (NZ) 620, *Using the Work of an Auditor’s Expert*, paragraph 6

ISA (NZ) 500

- (a) Obtaining audit evidence about the accuracy and completeness of the information; and (Ref: Para. A60-A61)
- (b) Evaluating whether the information is sufficiently precise and detailed for the auditor's purposes. (Ref: Para. A62)

Selecting Items for Testing to Obtain Audit Evidence

10. When designing tests of controls and tests of details, the auditor shall determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. (Ref: Para. A63-A67)

Inconsistency in, or Doubts over Reliability of, Audit Evidence

11. If:
- (a) audit evidence obtained from one source is inconsistent with that obtained from another; or
 - (b) the auditor has doubts over the reliability of information to be used as audit evidence,
- the auditor shall determine what modifications or additions to audit procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the audit. (Ref: Para. A68)

Application and Other Explanatory Material**External Information Source (Ref: Para 5(d))**

- A1. External information sources may include pricing services, governmental organisations, central banks or recognised stock exchanges. Examples of information that may be obtained from external information sources include:
- Prices and pricing related data;
 - Macro-economic data, such as historical and forecast unemployment rates and economic growth rates, or census data;
 - Credit history data;
 - Industry specific data, such as an index of reclamation costs for certain extractive industries, or viewership information or ratings used to determine advertising revenue in the entertainment industry; and
 - Mortality tables used to determine liabilities in the life insurance and pension sectors.
- A2. A particular set of information is more likely to be suitable for use by a broad range of users and less likely to be subject to influence by any particular user if the external individual or organisation provides it to the public for free, or makes it available to a wide range of users in return for payment of a fee. Judgement may be required in determining whether the information is suitable for use by a broad range of users, taking into account the ability of the entity to influence the external information source.

ISA (NZ) 500

- A3. An external individual or organisation cannot, in respect of any particular set of information, be both an external information source and a management's expert, or service organisation or auditor's expert.
- A4. However, an external individual or organisation may, for example, be acting as a management's expert when providing a particular set of information, but may be acting as an external information source when providing a different set of information. In some circumstances, professional judgement may be needed to determine whether an external individual or organisation is acting as an external information source or as a management's expert with respect to a particular set of information. In other circumstances, the distinction may be clear. For example:
- An external individual or organisation may be providing information about real estate prices that is suitable for use by a broad range of users, for example, information made generally available pertaining to a geographical region, and be determined to be an external information source with respect to that set of information. The same external organisation may also be acting as a management's or auditor's expert in providing commissioned valuations, with respect to the entity's real estate portfolio specifically tailored for the entity's facts and circumstances.
 - Some actuarial organisations publish mortality tables for general use which, when used by an entity, would generally be considered to be information from an external information source. The same actuarial organisation may also be a management's expert with respect to different information tailored to the specific circumstances of the entity to help management determine the pension liability for several of the entity's pension plans.
 - An external individual or organisation may possess expertise in the application of models to estimate the fair value of securities for which there is no observable market. If the external individual or organisation applies that expertise in making an estimate specifically for the entity and that work is used by management in preparing its financial statements, the external individual or organisation is likely to be a management's expert with respect to that information. If, on the other hand, that external individual or organisation merely provides, to the public, prices or pricing-related data regarding private transactions, and the entity uses that information in its own estimation methods, the external individual or organisation is likely to be an external information source with respect to such information.
 - An external individual or organisation may publish information, suitable for a broad range of users, about risks or conditions in an industry. If used by an entity in preparing its risk disclosures (for example in compliance with IFRS 7⁹), such information would ordinarily be considered to be information from an external information source. However, if the same type of information has been specifically commissioned by the entity to use its expertise to develop information about those risks, tailored to the entity's circumstances, the external individual or organisation is likely to be acting as a management's expert.
 - An external individual or organisation may apply its expertise in providing

⁹ New Zealand Equivalent to International Financial Reporting Standards (NZ IFRS) 7 *Financial Instruments: Disclosures*

ISA (NZ) 500

information about current and future market trends, which it makes available to, and is suitable for use by, a broad range of users. If used by the entity to help make decisions about assumptions to be used in making accounting estimates, such information is likely to be considered to be information from an external information source. If the same type of information has been commissioned by the entity to address current and future trends relevant to the entity's specific facts and circumstances, the external individual or organisation is likely to be acting as a management's expert.

Sufficient Appropriate Audit Evidence (Ref: Para. 6)

- A5. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has evaluated whether such information remains relevant and reliable as audit evidence for the current audit¹⁰) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition, the entity's accounting records and other sources internal to the entity are an important source of audit evidence. Information that may be used as audit evidence may have been prepared using the work of a management's expert or be obtained from an external information source. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.
- A6. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance and analytical procedures, often in some combination, in addition to enquiry. Although enquiry may provide important audit evidence, and may even produce evidence of a misstatement, enquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.
- A7. As explained in ISA (NZ) 200,¹¹ reasonable assurance is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.
- A8. The sufficiency and appropriateness of audit evidence are interrelated. Sufficiency is the measure of the quantity of audit evidence. The quantity of audit evidence needed is affected by the auditor's assessment of the risks of misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also by the quality of such audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate for its poor quality.
- A9. Appropriateness is the measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is

¹⁰ ISA (NZ) 315 (Revised 2019), paragraph 16

¹¹ ISA (NZ) 200, paragraph 5

ISA (NZ) 500

based. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.

- A10. ISA (NZ) 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained.¹² Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgement. ISA (NZ) 200 contains discussion of such matters as the nature of audit procedures, the timeliness of financial reporting, and the balance between benefit and cost, which are relevant factors when the auditor exercises professional judgement regarding whether sufficient appropriate audit evidence has been obtained.

Sources of Audit Evidence

- A11. Some audit evidence is obtained by performing audit procedures to test the accounting records, for example, through analysis and review, reperforming procedures followed in the financial reporting process, and reconciling related types and applications of the same information. Through the performance of such audit procedures, the auditor may determine that the accounting records are internally consistent and agree to the financial statements.

- A12. [Amended by the NZAuASB.]

NZA12.1 More assurance is ordinarily obtained from consistent audit evidence obtained from different sources or of a different nature than from items of audit evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally, such as evidence existing within the accounting records, minutes of meetings, or a representation from those charged with governance.

- A13. Information from sources independent of the entity that the auditor may use as audit evidence may include confirmations from third parties and information from an external information source, analysts' reports, and comparable data about competitors (benchmarking data).

Audit Procedures for Obtaining Audit Evidence

- A14. As required by, and explained further in, ISA (NZ) 315 (Revised 2019) and ISA (NZ) 330, audit evidence to draw reasonable conclusions on which to base the auditor's opinion is obtained by performing:

- (a) Risk assessment procedures; and
- (b) Further audit procedures, which comprise:
 - (i) Tests of controls, when required by the ISAs (NZ) or when the auditor has chosen to do so; and
 - (ii) Substantive procedures, including tests of details and substantive analytical procedures.

- A15. The audit procedures described in paragraphs A18-A29 below may be used as risk assessment procedures, tests of controls or substantive procedures, depending on the context in which they are applied by the auditor. As explained in ISA (NZ) 330, audit

¹² ISA (NZ) 330, paragraph 26

ISA (NZ) 500

evidence obtained from previous audits may, in certain circumstances, provide appropriate audit evidence where the auditor performs audit procedures to establish its continuing relevance.¹³

- A16. The nature and timing of the audit procedures to be used may be affected by the fact that some of the accounting data and other information may be available only in electronic form or only at certain points or periods in time. For example, source documents, such as purchase orders and invoices, may exist only in electronic form when an entity uses electronic commerce, or may be discarded after scanning when an entity uses image processing systems to facilitate storage and reference.
- A17. Certain electronic information may not be retrievable after a specified period of time, for example, if files are changed and if backup files do not exist. Accordingly, the auditor may find it necessary as a result of an entity's data retention policies to request retention of some information for the auditor's review or to perform audit procedures at a time when the information is available.

Inspection

- A18. Inspection involves examining records or documents, whether internal or external, in paper form, electronic form, or other media, or a physical examination of an asset. Inspection of records and documents provides audit evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production. An example of inspection used as a test of controls is inspection of records for evidence of authorisation.
- A19. Some documents represent direct audit evidence of the existence of an asset, for example, a document constituting a financial instrument such as a stock or bond. Inspection of such documents may not necessarily provide audit evidence about ownership or value. In addition, inspecting an executed contract may provide audit evidence relevant to the entity's application of accounting policies, such as revenue recognition.
- A20. Inspection of tangible assets may provide reliable audit evidence with respect to their existence, but not necessarily about the entity's rights and obligations or the valuation of the assets. Inspection of individual inventory items may accompany the observation of inventory counting.

Observation

- A21. Observation consists of looking at a process or procedure being performed by others, for example, the auditor's observation of inventory counting by the entity's personnel, or of the performance of controls. Observation provides audit evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed. See ISA (NZ) 501 for further guidance on observation of the counting of inventory.¹⁴

External Confirmation

- A22. An external confirmation represents audit evidence obtained by the auditor as a direct written response to the auditor from a third party (the confirming party), in paper form,

¹³ ISA (NZ) 330, paragraph A36

¹⁴ ISA (NZ) 501, *Audit Evidence—Specific Considerations for Selected Items*

ISA (NZ) 500

or by electronic or other medium. External confirmation procedures frequently are relevant when addressing assertions associated with certain account balances and their elements. However, external confirmations need not be restricted to account balances only. For example, the auditor may request confirmation of the terms of agreements or transactions an entity has with third parties; the confirmation request may be designed to ask if any modifications have been made to the agreement and, if so, what the relevant details are. External confirmation procedures also are used to obtain audit evidence about the absence of certain conditions, for example, the absence of a “side agreement” that may influence revenue recognition. See ISA (NZ) 505 for further guidance.¹⁵

Recalculation

A23. Recalculation consists of checking the mathematical accuracy of documents or records. Recalculation may be performed manually or electronically.

Reperformance

A24. Repperformance involves the auditor’s independent execution of procedures or controls that were originally performed as part of the entity’s internal control.

Analytical Procedures

A25. Analytical procedures consist of evaluations of financial information through analysis of plausible relationships among both financial and non-financial data. Analytical procedures also encompass such investigation as is necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. See ISA (NZ) 520 for further guidance.

Enquiry

A26. Enquiry consists of seeking information of knowledgeable persons, both financial and non-financial, within the entity or outside the entity. Enquiry is used extensively throughout the audit in addition to other audit procedures. Enquiries may range from formal written enquiries to informal oral enquiries. Evaluating responses to enquiries is an integral part of the enquiry process.

A27. Responses to enquiries may provide the auditor with information not previously possessed or with corroborative audit evidence. Alternatively, responses might provide information that differs significantly from other information that the auditor has obtained, for example, information regarding the possibility of management override of controls. In some cases, responses to enquiries provide a basis for the auditor to modify or perform additional audit procedures.

A28. Although corroboration of evidence obtained through enquiry is often of particular importance, in the case of enquiries about management intent, the information available to support management’s intent may be limited. In these cases, understanding management’s past history of carrying out its stated intentions, management’s stated reasons for choosing a particular course of action, and management’s ability to pursue a specific course of action may provide relevant information to corroborate the evidence obtained through enquiry.

A29. [Amended by the NZAuASB.]

¹⁵ ISA (NZ) 505, *External Confirmations*

ISA (NZ) 500

NZA29.1 In respect of some matters, the auditor may consider it necessary to obtain written representations from those charged with governance to confirm responses to oral enquiries. See ISA (NZ) 580 for further guidance.¹⁶

Information to Be Used as Audit Evidence*Relevance and Reliability (Ref: Para. 7)*

A30. As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources, for example, previous audits, through the information obtained by the firm in the acceptance and continuance of the client relationship or engagement and in complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

Relevance

- A31. Relevance deals with the logical connection with, or bearing upon, the purpose of the audit procedure and, where appropriate, the assertion under consideration. The relevance of information to be used as audit evidence may be affected by the direction of testing. For example, if the purpose of an audit procedure is to test for overstatement in the existence or valuation of accounts payable, testing the recorded accounts payable may be a relevant audit procedure. On the other hand, when testing for understatement in the existence or valuation of accounts payable, testing the recorded accounts payable would not be relevant, but testing such information as subsequent disbursements, unpaid invoices, suppliers' statements, and unmatched receiving reports may be relevant.
- A32. A given set of audit procedures may provide audit evidence that is relevant to certain assertions, but not others. For example, inspection of documents related to the collection of receivables after the period end may provide audit evidence regarding existence and valuation, but not necessarily cutoff. Similarly, obtaining audit evidence regarding a particular assertion, for example, the existence of inventory, is not a substitute for obtaining audit evidence regarding another assertion, for example, the valuation of that inventory. On the other hand, audit evidence from different sources or of a different nature may often be relevant to the same assertion.
- A33. Tests of controls are designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level. Designing tests of controls to obtain relevant audit evidence includes identifying conditions (characteristics or attributes) that indicate performance of a control, and deviation conditions which indicate departures from adequate performance. The presence or absence of those conditions can then be tested by the auditor.
- A34. Substantive procedures are designed to detect material misstatements at the assertion level. They comprise tests of details and substantive analytical procedures. Designing substantive procedures includes identifying conditions relevant to the purpose of the test that constitute a misstatement in the relevant assertion.

¹⁶ ISA (NZ) 580, *Written Representations*

Reliability

A35. The reliability of information to be used as audit evidence, and therefore of the audit evidence itself, is influenced by its source and its nature, and the circumstances under which it is obtained, including the controls over its preparation and maintenance where relevant. Therefore, generalisations about the reliability of various kinds of audit evidence are subject to important exceptions. Even when information to be used as audit evidence is obtained from sources external to the entity, circumstances may exist that could affect its reliability. For example, information obtained from a source independent of the entity may not be reliable if the source is not knowledgeable, or a management's expert may lack objectivity. While recognising that exceptions may exist, the following generalisations about the reliability of audit evidence may be useful:

- The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
- The reliability of audit evidence that is generated internally is increased when the related controls, including those over its preparation and maintenance, imposed by the entity are effective.
- Audit evidence obtained directly by the auditor (for example, observation of the application of a control) is more reliable than audit evidence obtained indirectly or by inference (for example, enquiry about the application of a control).
- Audit evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of the matters discussed).
- Audit evidence provided by original documents is more reliable than audit evidence provided by photocopies or facsimiles, or documents that have been filmed, digitised or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance.

A36. ISA (NZ) 520 provides further guidance regarding the reliability of data used for purposes of designing analytical procedures as substantive procedures.¹⁷

A37. ISA (NZ) 240 deals with circumstances where the auditor has reason to believe that a document may not be authentic, or may have been modified without that modification having been disclosed to the auditor.¹⁸

A38. ISA (NZ) 250 (Revised)¹⁹ provides further guidance with respect to the auditor complying with any additional responsibilities under law, regulation or relevant ethical requirements regarding an entity's identified or suspected non-compliance with laws and regulations that may provide further information that is relevant to the auditor's work in accordance with ISAs (NZ) and evaluating the implications of such non-compliance in relation to other aspects of the audit.

¹⁷ ISA (NZ) 520, paragraphs 5(a)

¹⁸ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph [4422](#)

¹⁹ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*, paragraph 9

External Information Sources

- A39. The auditor is required by paragraph 7 to consider the relevance and reliability of information obtained from an external information source that is to be used as audit evidence, regardless of whether that information has been used by the entity in preparing the financial statements or obtained by the auditor. For information obtained from an external information source, that consideration may, in certain cases, include audit evidence about the external information source or the preparation of the information by the external information source, obtained through designing and performing further audit procedures in accordance with ISA (NZ) 330 or, where applicable, ISA (NZ) 540 (Revised).²⁰
- A40. Obtaining an understanding of why management or, when applicable, a management's expert uses an external information source, and how the relevance and reliability of the information was considered (including its accuracy and completeness), may help to inform the auditor's consideration of the relevance and reliability of that information.
- A41. The following factors may be important when considering the relevance and reliability of information obtained from an external information source, including its accuracy and completeness, taking into account that some of these factors may only be relevant when the information has been used by management in preparing the financial statements or has been obtained by the auditor:
- The nature and authority of the external information source. For example, a central bank or government statistics office with a legislative mandate to provide industry information to the public is likely to be an authority for certain types of information;
 - The ability to influence the information obtained, through relationships between the entity and the information source;
 - The competence and reputation of the external information source with respect to the information, including whether, in the auditor's professional judgement, the information is routinely provided by a source with a track record of providing reliable information;
 - Past experience of the auditor with the reliability of the information provided by the external information source;
 - Evidence of general market acceptance by users of the relevance and/or reliability of information from an external information source for a similar purpose to that for which the information has been used by management or the auditor;
 - Whether the entity has in place controls to address the relevance and reliability of the information obtained and used;
 - Whether the external information source accumulates overall market information or engages directly in "setting" market transactions;
 - Whether the information is suitable for use in the manner in which it is being used and, if applicable, was developed taking into account the applicable financial reporting framework;
 - Alternative information that may contradict the information used;

²⁰ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Disclosures*

ISA (NZ) 500

- The nature and extent of disclaimers or other restrictive language relating to the information obtained;
- Information about the methods used in preparing the information, how the methods are being applied including, where applicable, how models have been used in such application, and the controls over the methods; and
- When available, information relevant to considering the appropriateness of assumptions and other data applied by the external information sources in developing the information obtained.

A42. The nature and extent of the auditor's consideration takes into account the assessed risks of material misstatement at the assertion level to which the use of the external information is relevant, the degree to which the use of that information is relevant to the reasons for the assessed risks of material misstatement and the possibility that the information from the external information source may not be reliable (for example, whether it is from a credible source). Based on the auditor's consideration of the matters described in paragraph A39, the auditor may determine that further understanding of the entity and its environment, including its internal control, is needed, in accordance with ISA (NZ) 315 (Revised 2019), or that further audit procedures, in accordance with ISA (NZ) 330²¹, and ISA (NZ) 540 (Revised)²² when applicable, are appropriate in the circumstances, to respond to the assessed risks of material misstatement related to the use of information from an external information source. Such procedures may include:

- Performing a comparison of information obtained from the external information source with information obtained from an alternative independent information source.
- When relevant to considering management's use of an external information source, obtaining an understanding of controls management has in place to consider the reliability of the information from external information sources, and potentially testing the operating effectiveness of such controls.
- Performing procedures to obtain information from the external information source to understand its processes, techniques, and assumptions, for the purposes of identifying, understanding and, when relevant, testing the operating effectiveness of its controls.

A43. In some situations, there may be only one provider of certain information, for example, information from a central bank or government, such as an inflation rate, or a single recognised industry body. In such cases, the auditor's determination of the nature and extent of audit procedures that may be appropriate in the circumstances is influenced by the nature and credibility of the source of the information, the assessed risks of material misstatement to which that external information is relevant, and the degree to which the use of that information is relevant to the reasons for the assessed risk of material misstatement. For example, when the information is from a credible authoritative source, the extent of the auditor's further audit procedures may be less extensive, such as corroborating the information to the source's website or published information. In other cases, if a source is not assessed as credible, the auditor may determine that more extensive procedures are appropriate and, in the absence of any alternative independent

²¹ ISA (NZ) 330, paragraph 6

²² ISA (NZ) 540 (Revised), paragraph 29

ISA (NZ) 500

information source against which to compare, may consider whether performing procedures to obtain information from the external information source, when practical, is appropriate in order to obtain sufficient appropriate audit evidence.

- A44. When the auditor does not have a sufficient basis with which to consider the relevance and reliability of information from an external information source, the auditor may have a limitation on scope if sufficient appropriate audit evidence cannot be obtained through alternative procedures. Any imposed limitation on scope is evaluated in accordance with the requirements of ISA (NZ) 705 (Revised).²³

Reliability of Information Produced by a Management's Expert (Ref: Para. 8)

- A45. The preparation of an entity's financial statements may require expertise in a field other than accounting or auditing, such as actuarial calculations, valuations, or engineering data. The entity may employ or engage experts in these fields to obtain the needed expertise to prepare the financial statements. Failure to do so when such expertise is necessary increases the risks of material misstatement.

- A46. When information to be used as audit evidence has been prepared using the work of a management's expert, the requirement in paragraph 8 of this ISA (NZ) applies. For example, an individual or organisation may possess expertise in the application of models to estimate the fair value of securities for which there is no observable market. If the individual or organisation applies that expertise in making an estimate which the entity uses in preparing its financial statements, the individual or organisation is a management's expert and paragraph 8 applies. If, on the other hand, that individual or organisation merely provides price data regarding private transactions not otherwise available to the entity which the entity uses in its own estimation methods, such information, if used as audit evidence, is subject to paragraph 7 of this ISA (NZ) being information from an external information source and not the use of a management's expert by the entity.

- A47. The nature, timing and extent of audit procedures in relation to the requirement in paragraph 8 of this ISA (NZ), may be affected by such matters as:

- The nature and complexity of the matter to which the management's expert relates.
- The risks of material misstatement in the matter.
- The availability of alternative sources of audit evidence.
- The nature, scope and objectives of the management's expert's work.
- Whether the management's expert is employed by the entity, or is a party engaged by it to provide relevant services.
- The extent to which management can exercise control or influence over the work of the management's expert.
- Whether the management's expert is subject to technical performance standards or other professional or industry requirements.
- The nature and extent of any controls within the entity over the management's expert's work.
- The auditor's knowledge and experience of the management's expert's field of

²³ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, Paragraph 13

expertise.

- The auditor's previous experience of the work of that expert.

The Competence, Capabilities and Objectivity of a Management's Expert (Ref: Para. 8(a))

A48. Competence relates to the nature and level of expertise of the management's expert. Capability relates the ability of the management's expert to exercise that competence in the circumstances. Factors that influence capability may include, for example, geographic location, and the availability of time and resources. Objectivity relates to the possible effects that bias, conflict of interest or the influence of others may have on the professional or business judgement of the management's expert. The competence, capabilities and objectivity of a management's expert, and any controls within the entity over that expert's work, are important factors in relation to the reliability of any information produced by a management's expert.

A49. Information regarding the competence, capabilities and objectivity of a management's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, licence to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- An auditor's expert, if any, who assists the auditor in obtaining sufficient appropriate audit evidence with respect to information produced by the management's expert.

A50. Matters relevant to evaluating the competence, capabilities and objectivity of a management's expert include whether that expert's work is subject to technical performance standards or other professional or industry requirements, for example, ethical standards and other membership requirements of a professional body or industry association, accreditation standards of a licensing body, or requirements imposed by law or regulation.

A51. Other matters that may be relevant include:

- The relevance of the management's expert's competence to the matter for which that expert's work will be used, including any areas of specialty within that expert's field. For example, a particular actuary may specialise in property and casualty insurance, but have limited expertise regarding pension calculations.
- The management's expert's competence with respect to relevant accounting requirements, for example, knowledge of assumptions and methods, including models where applicable, that are consistent with the applicable financial reporting framework.
- Whether unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures indicate that it may be necessary to reconsider the initial evaluation of the competence, capabilities and objectivity of the management's expert as the audit progresses.

ISA (NZ) 500

- A52. A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats and intimidation threats. Safeguards may reduce such threats, and may be created either by external structures (for example, the management's expert's profession, legislation or regulation), or by the management's expert's work environment (for example, quality control policies and procedures).
- A53. Although safeguards cannot eliminate all threats to a management's expert's objectivity, threats such as intimidation threats may be of less significance to an expert engaged by the entity than to an expert employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, an expert employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity.
- A54. When evaluating the objectivity of an expert engaged by the entity, it may be relevant to discuss with management and that expert any interests and relationships that may create threats to the expert's objectivity, and any applicable safeguards, including any professional requirements that apply to the expert; and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include:
- Financial interests.
 - Business and personal relationships.
 - Provision of other services.

Obtaining an Understanding of the Work of the Management's Expert (Ref: Para. 8(b))

- A55. An understanding of the work of the management's expert includes an understanding of the relevant field of expertise. An understanding of the relevant field of expertise may be obtained in conjunction with the auditor's determination of whether the auditor has the expertise to evaluate the work of the management's expert, or whether the auditor needs an auditor's expert for this purpose.²⁴
- A56. Aspects of the management's expert's field relevant to the auditor's understanding may include:
- Whether that expert's field has areas of specialty within it that are relevant to the audit.
 - Whether any professional or other standards, and regulatory or legal requirements apply.
 - What assumptions and methods are used by the management's expert, and whether they are generally accepted within that expert's field and appropriate for financial reporting purposes.
 - The nature of internal and external data or information the management's expert uses.
- A57. In the case of a management's expert engaged by the entity, there will ordinarily be an engagement letter or other written form of agreement between the entity and that expert. Evaluating that agreement when obtaining an understanding of the work of the

²⁴ ISA (NZ) 620, paragraph 7

ISA (NZ) 500

management's expert may assist the auditor in determining the appropriateness of the following for the auditor's purposes:

- The nature, scope and objectives of that expert's work;
- The respective roles and responsibilities of management and that expert; and
- The nature, timing and extent of communication between management and that expert, including the form of any report to be provided by that expert.

A58. In the case of a management's expert employed by the entity, it is less likely there will be a written agreement of this kind. Enquiry of the expert and other members of management may be the most appropriate way for the auditor to obtain the necessary understanding.

Evaluating the Appropriateness of the Management's Expert's Work (Ref: Para. 8(c))

A59. Considerations when evaluating the appropriateness of the management's expert's work as audit evidence for the relevant assertion may include:

- The relevance and reasonableness of that expert's findings or conclusions, their consistency with other audit evidence, and whether they have been appropriately reflected in the financial statements;
- If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods;
- If that expert's work involves significant use of source data the relevance, completeness, and accuracy of that source data; and
- If that expert's work involves the use of information from an external information source, the relevance and reliability of that information.

Information Produced by the Entity and Used for the Auditor's Purposes (Ref: Para. 9(a)-(b))

A60. In order for the auditor to obtain reliable audit evidence, information produced by the entity that is used for performing audit procedures needs to be sufficiently complete and accurate. For example, the effectiveness of auditing revenue by applying standard prices to records of sales volume is affected by the accuracy of the price information and the completeness and accuracy of the sales volume data. Similarly, if the auditor intends to test a population (for example, payments) for a certain characteristic (for example, authorisation), the results of the test will be less reliable if the population from which items are selected for testing is not complete.

A61. Obtaining audit evidence about the accuracy and completeness of such information may be performed concurrently with the actual audit procedure applied to the information when obtaining such audit evidence is an integral part of the audit procedure itself. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.

A62. In some cases, the auditor may intend to use information produced by the entity for other audit purposes. For example, the auditor may intend to make use of the entity's performance measures for the purpose of analytical procedures, or to make use of the entity's information produced for monitoring activities, such as reports of the internal audit

function. In such cases, the appropriateness of the audit evidence obtained is affected by whether the information is sufficiently precise or detailed for the auditor's purposes. For example, performance measures used by management may not be precise enough to detect material misstatements.

Selecting Items for Testing to Obtain Audit Evidence (Ref: Para. 10)

A63. An effective test provides appropriate audit evidence to an extent that, taken with other audit evidence obtained or to be obtained, will be sufficient for the auditor's purposes. In selecting items for testing, the auditor is required by paragraph 7 to determine the relevance and reliability of information to be used as audit evidence; the other aspect of effectiveness (sufficiency) is an important consideration in selecting items to test. The means available to the auditor for selecting items for testing are:

- (a) Selecting all items (100% examination);
- (b) Selecting specific items; and
- (c) Audit sampling.

The application of any one or combination of these means may be appropriate depending on the particular circumstances, for example, the risks of material misstatement related to the assertion being tested, and the practicality and efficiency of the different means.

Selecting All Items

A64. The auditor may decide that it will be most appropriate to examine the entire population of items that make up a class of transactions or account balance (or a stratum within that population). 100% examination is unlikely in the case of tests of controls; however, it is more common for tests of details. 100% examination may be appropriate when, for example:

- The population constitutes a small number of large value items;
- There is a significant risk and other means do not provide sufficient appropriate audit evidence; or
- The repetitive nature of a calculation or other process performed automatically by an information system makes a 100% examination cost effective.

Selecting Specific Items

A65. The auditor may decide to select specific items from a population. In making this decision, factors that may be relevant include the auditor's understanding of the entity, the assessed risks of material misstatement, and the characteristics of the population being tested. The judgemental selection of specific items is subject to non-sampling risk. Specific items selected may include:

- High value or key items. The auditor may decide to select specific items within a population because they are of high value, or exhibit some other characteristic, for example, items that are suspicious, unusual, particularly risk-prone or that have a history of error.
- All items over a certain amount. The auditor may decide to examine items whose recorded values exceed a certain amount so as to verify a large proportion of the total amount of a class of transactions or account balance.
- Items to obtain information. The auditor may examine items to obtain information

ISA (NZ) 500

about matters such as the nature of the entity or the nature of transactions.

- A66. While selective examination of specific items from a class of transactions or account balance will often be an efficient means of obtaining audit evidence, it does not constitute audit sampling. The results of audit procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide audit evidence concerning the remainder of the population.

Audit Sampling

- A67. Audit sampling is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it. Audit sampling is discussed in ISA (NZ) 530.²⁵

Inconsistency in, or Doubts over Reliability of, Audit Evidence (Ref: Para. 11)

- A68. Obtaining audit evidence from different sources or of a different nature may indicate that an individual item of audit evidence is not reliable, such as when audit evidence obtained from one source is inconsistent with that obtained from another. This may be the case when, for example, responses to enquiries of management, internal auditors, and others are inconsistent, or when responses to enquiries of those charged with governance made to corroborate the responses to enquiries of management are inconsistent with the response by management. ISA (NZ) 230 includes a specific documentation requirement if the auditor identified information that is inconsistent with the auditor's final conclusion regarding a significant matter.²⁶

²⁵ ISA (NZ) 530, *Audit Sampling*

²⁶ ISA (NZ) 230, *Audit Documentation*, paragraph 11

ISA (NZ) 500**ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING**

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 500.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 500 *Audit Evidence*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

The ISAs require the auditor to obtain written representations from management. The ISAs (NZ) require written representations from those charged with governance. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 500.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 500 *Audit Evidence*.

ASA 500 conforms to ISA 500.

Minimum Legislative Information

(This information is not part of the standard)

This **S** Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 500 <i>Audit Evidence</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This S Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This S Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 505

External Confirmations **(ISA (NZ) 505)**

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in June 2021 and incorporates amendments up to and including June 2020.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 505 issued by the External Reporting Board in July 2011.~~

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-16-6

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 505 *External Confirmations* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 505 issued by the External Reporting Board in July 2011 (as amended to February 2020).

The revision of ISA (NZ) 505 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This **Standard** reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 505

EXTERNAL CONFIRMATIONS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1
External Confirmation Procedures to Obtain Audit Evidence	2-3
Effective Date	4
Objective	5
Definitions	6
Requirements	
External Confirmation Procedures	7
Management's Refusal to Allow the Auditor to Send a Confirmation Request	8-9
Results of the External Confirmation Procedures	10-14
Negative Confirmations	15
Evaluating the Evidence Obtained	16
Application and Other Explanatory Material	
External Confirmation Procedures	A1-A7
Management's Refusal to Allow the Auditor to Send a Confirmation Request	A8-A10
Results of the External Confirmation Procedures	A11-A22
Negative Confirmations	A23
Evaluating the Evidence Obtained	A24-A25
<u>Accompanying Attachment: Conformity to the International Standards on Auditing</u>	

International Standard on Auditing (New Zealand) (ISA (NZ)) 505, **“External Confirmations”** should be read in conjunction with ISA (NZ) 200, **“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand).”**

ISA (NZ) 505

History of Amendments

Table of pronouncements – ISA (NZ) 505 *External Confirmations*

This table lists the pronouncements establishing and amending ISA (NZ) 505.

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 505	~~October 2025~~ July 2011	~~Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~
~~International Standard on Auditing (New Zealand) 610 (Revised 2013) Using the Work of Internal Auditors~~	~~April 2013~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2013~~
~~Use of management and those charged with governance~~	~~December 2013~~	~~Effective for audits of financial statements for periods beginning on or after 1 July 2014~~
~~Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021~~

Table of Amended Paragraphs in ISA (NZ) 505		
Paragraph affected	How affected	By...[date]
A9, A17, A19	Amended	ISA (NZ) 610 (Revised 2013) [April 2013]
Various	Amended	Use of management and those charged with governance [Dec 2013]
A9, A17, A19	Amended	Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)

Commencement and **A**pplication

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's use of external confirmation procedures to obtain audit evidence in accordance with the requirements of ISA (NZ) 330² and ISA (NZ) 500.³ It does not address enquiries regarding litigation and claims which are dealt with in ISA (NZ) 501.⁴

External Confirmation Procedures to Obtain Audit Evidence

2. ISA (NZ) 500 indicates that the reliability of audit evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.⁵ That ISA (NZ) also includes the following generalisations applicable to audit evidence:⁶

- Audit evidence is more reliable when it is obtained from independent sources outside the entity.
- Audit evidence obtained directly by the auditor is more reliable than audit evidence obtained indirectly or by inference.
- Audit evidence is more reliable when it exists in documentary form, whether paper, electronic or other medium.

Accordingly, depending on the circumstances of the audit, audit evidence in the form of external confirmations received directly by the auditor from confirming parties may be more reliable than evidence generated internally by the entity. This ISA (NZ) is intended to assist the auditor in designing and performing external confirmation procedures to obtain relevant and reliable audit evidence.

3. Other ISAs (NZ) recognise the importance of external confirmations as audit evidence, for example:
 - ISA (NZ) 330 discusses the auditor's responsibility to design and implement overall responses to address the assessed risks of material misstatement at the financial statement level, and to 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.⁷ In addition, ISA (NZ) 330 requires that, irrespective of the assessed risks of material misstatement, the auditor designs and performs substantive procedures for each material class of transactions, account balance, and disclosure. The auditor is also required to consider whether external confirmation procedures are to be performed as substantive audit procedures.⁸

² ISA 330, *The Auditor's Responses to Assessed Risks*.

³ ISA 500, *Audit Evidence*.

⁴ ISA (NZ) 501, *Audit Evidence—Specific Considerations for Selected Items*.

⁵ ISA (NZ) 500, paragraph A9.

⁶ ISA (NZ) 500, paragraph A35.

⁷ ISA (NZ) 330, paragraphs 5-6.

⁸ ISA (NZ) 330, paragraphs 18-19.

ISA (NZ) 505

- ISA (NZ) 330 requires that the auditor obtain more persuasive audit evidence the higher the auditor's assessment of risk.⁹ To do this, the auditor may increase the quantity of the evidence or obtain evidence that is more relevant or reliable, or both. For example, the auditor may place more emphasis on obtaining evidence directly from third parties or obtaining corroborating evidence from a number of independent sources. ISA (NZ) 330 also indicates that external confirmation procedures may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error.¹⁰
- ISA (NZ) 240 indicates that the auditor may design [external confirmation procedures requests](#) to obtain [audit evidence additional corroborative information](#) as a response to address the assessed risks of material misstatement due to fraud at the assertion level.¹¹
- ISA (NZ) 500 indicates that corroborating information obtained from a source independent of the entity, such as external confirmations, may increase the assurance the auditor obtains from evidence existing within the accounting records or from representations made by those charged with governance.¹²

Effective Date

4. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011.~~ [\[Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2\]](#)

[NZ 4.1 This Standard repeals ISA \(NZ\) 505 External Confirmations issued in July 2011.](#)

Objective

5. The objective of the auditor, when using external confirmation procedures, is to design and perform such procedures to obtain relevant and reliable audit evidence.

Definitions

6. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
- (a) External confirmation – Audit evidence obtained as a direct written response to the auditor from a third party (the confirming party), in paper form, or by electronic or other medium.
 - (b) Positive confirmation request – A request that the confirming party respond directly to the auditor indicating whether the confirming party agrees or disagrees with the information in the request, or providing the requested information.
 - (c) Negative confirmation request – A request that the confirming party respond directly to the auditor only if the confirming party disagrees with the information provided in the request.

⁹ ISA (NZ) 330, paragraph 7(b)

¹⁰ ISA (NZ) 330, paragraph A53

¹¹ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs [A38A129-A135](#)

¹² ISA (NZ) 500, paragraph A12-A13

ISA (NZ) 505

- (d) Non-response – A failure of the confirming party to respond, or fully respond, to a positive confirmation request, or a confirmation request returned undelivered.
- (e) Exception – A response that indicates a difference between information requested to be confirmed, or contained in the entity's records, and information provided by the confirming party.

Requirements**External Confirmation Procedures**

7. When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:
 - (a) Determining the information to be confirmed or requested; (Ref: Para. A1)
 - (b) Selecting the appropriate confirming party; (Ref: Para. A2)
 - (c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and (Ref: Para. A3-A6)
 - (d) Sending the requests, including follow-up requests when applicable, to the confirming party. (Ref: Para. A7)

Management's Refusal to Allow the Auditor to Send a Confirmation Request

8. If management refuses to allow the auditor to send a confirmation request, the auditor shall:
 - (a) Enquire as to management's reasons for the refusal, and seek audit evidence as to their validity and reasonableness; (Ref: Para. A8)
 - (b) Evaluate the implications of management's refusal on the auditor's assessment of the relevant risks of material misstatement, including the risks of [material misstatement due to fraud](#), and on the nature, timing and extent of other audit procedures; and (Ref: Para. A9)
 - (c) Perform alternative audit procedures designed to obtain relevant and reliable audit evidence. (Ref: Para. A10)
9. If the auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, the auditor shall communicate with those charged with governance in accordance with ISA (NZ) 260 (Revised).¹³ The auditor also shall determine the implications for the audit and the auditor's opinion in accordance with ISA (NZ) 705 (Revised).¹⁴

Results of the External Confirmation Procedures*Reliability of Responses to Confirmation Requests*

10. If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor shall obtain further audit evidence to resolve those

¹³ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16

¹⁴ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

doubts. (Ref: Para. A11-A16)

11. If the auditor determines that a response to a confirmation request is not reliable, the auditor shall evaluate the implications on the assessment of the relevant risks of material misstatement, including ~~the risks~~ of material misstatement due to fraud, and on the related nature, timing and extent of other audit procedures. (Ref: Para. A17)

Non-Responses

12. In the case of each non-response, the auditor shall perform alternative audit procedures to obtain relevant and reliable audit evidence. (Ref: Para A18-A19)

When a Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence

13. If the auditor has determined that a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion in accordance with ISA (NZ) 705 (Revised). (Ref: Para A20)

Exceptions

14. The auditor shall investigate exceptions to determine whether or not they are indicative of misstatements. (Ref: Para. A21-A22)

Negative Confirmations

15. Negative confirmations provide less persuasive audit evidence than positive confirmations. Accordingly, the auditor shall not use negative confirmation requests as the sole substantive audit procedure to address an assessed risk of material misstatement at the assertion level unless all of the following are present: (Ref: Para. A23)
 - (a) The auditor has assessed the risk of material misstatement as low and has obtained sufficient appropriate audit evidence regarding the operating effectiveness of controls relevant to the assertion;
 - (b) The population of items subject to negative confirmation procedures comprises a large number of small, homogeneous, account balances, transactions or conditions;
 - (c) A very low exception rate is expected; and
 - (d) The auditor is not aware of circumstances or conditions that would cause recipients of negative confirmation requests to disregard such requests.

Evaluating the Evidence Obtained

16. The auditor shall evaluate whether the results of the external confirmation procedures provide relevant and reliable audit evidence, or whether further audit evidence is necessary. (Ref: Para A24-A25)

Application and Other Explanatory Material

External Confirmation Procedures

Determining the Information to Be Confirmed or Requested (Ref: Para. 7(a))

- A1. External confirmation procedures frequently are performed to confirm or request information regarding account balances and their elements. They may also be used to confirm terms of agreements, contracts, or transactions between an entity and other parties, or to confirm the absence of certain conditions, such as a “side agreement.”

Selecting the Appropriate Confirming Party (Ref: Para. 7(b))

- A2. Responses to confirmation requests provide more relevant and reliable audit evidence when confirmation requests are sent to a confirming party the auditor believes is knowledgeable about the information to be confirmed. For example, a financial institution official who is knowledgeable about the transactions or arrangements for which confirmation is requested may be the most appropriate person at the financial institution from whom to request confirmation.

Designing Confirmation Requests (Ref: Para. 7(c))

- A3. The design of a confirmation request may directly affect the confirmation response rate, and the reliability and the nature of the audit evidence obtained from responses.
- A4. Factors to consider when designing confirmation requests include:
- The assertions being addressed.
 - Specific identified risks of material misstatement, including [risks of material misstatement due to fraud](#) ~~risks~~.
 - The layout and presentation of the confirmation request.
 - Prior experience on the audit or similar engagements.
 - The method of communication (for example, in paper form, or by electronic or other medium).
 - Management’s authorisation or encouragement to the confirming parties to respond to the auditor. Confirming parties may only be willing to respond to a confirmation request containing management’s authorisation.
 - The ability of the intended confirming party to confirm or provide the requested information (for example, individual invoice amount versus total balance).
- A5. A positive external confirmation request asks the confirming party to reply to the auditor in all cases, either by indicating the confirming party’s agreement with the given information, or by asking the confirming party to provide information. A response to a positive confirmation request ordinarily is expected to provide reliable audit evidence. There is a risk, however, that a confirming party may reply to the confirmation request without verifying that the information is correct. The auditor may reduce this risk by using positive confirmation requests that do not state the amount (or other information) on the confirmation request, and ask the confirming party to fill in the amount or furnish other information. On the other hand, use of this type of “blank” confirmation request may result in lower response rates because additional effort is required of the confirming parties.
- A6. Determining that requests are properly addressed includes testing the validity of some or all of the addresses on confirmation requests before they are sent out.

Follow-Up on Confirmation Requests (Ref: Para. 7(d))

- A7. The auditor may send an additional confirmation request when a reply to a previous

request has not been received within a reasonable time. For example, the auditor may, having re-verified the accuracy of the original address, send an additional or follow-up request.

Management's Refusal to Allow the Auditor to Send a Confirmation Request

Reasonableness of Management's Refusal (Ref: Para. 8(a))

A8. A refusal by management to allow the auditor to send a confirmation request is a limitation on the audit evidence the auditor may wish to obtain. The auditor is therefore required to enquire as to the reasons for the limitation. A common reason advanced is the existence of a legal dispute or ongoing negotiation with the intended confirming party, the resolution of which may be affected by an untimely confirmation request. The auditor is required to seek audit evidence as to the validity and reasonableness of the reasons because of the risk that management may be attempting to deny the auditor access to audit evidence that may reveal fraud or error.

Implications for the Assessment of Risks of Material Misstatement (Ref: Para. 8(b))

A9. The auditor may conclude from the evaluation in paragraph 8(b) that it would be appropriate to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures in accordance with ISA (NZ) 315 (Revised 2019).¹⁵ For example, if management's request to not confirm is unreasonable, this may indicate a fraud risk factor that requires evaluation in accordance with ISA (NZ) 240.¹⁶

Alternative Audit Procedures (Ref: Para. 8(c))

A10. The alternative audit procedures performed may be similar to those appropriate for a non-response as set out in paragraphs A18-A19 of this ISA (NZ). Such procedures also would take account of the results of the auditor's evaluation in paragraph 8(b) of this ISA (NZ).

Results of the External Confirmation Procedures

Reliability of Responses to Confirmation Requests (Ref: Para. 10)

A11. ISA (NZ) 500 indicates that even when audit evidence is obtained from sources external to the entity, circumstances may exist that affect its reliability.¹⁷ All responses carry some risk of interception, alteration or fraud. Such risk exists regardless of whether a response is obtained in paper form, or by electronic or other medium. Factors that may indicate doubts about the reliability of a response include that it:

- Was received by the auditor indirectly; or
- Appeared not to come from the originally intended confirming party.

A12. Responses received electronically, for example by facsimile or electronic mail, involve risks as to reliability because proof of origin and authority of the respondent may be difficult to establish, and alterations may be difficult to detect. A process used by the auditor and the respondent that creates a secure environment for responses received electronically may mitigate these risks. If the auditor is satisfied that such a process is

¹⁵ ISA (NZ) 315 (Revised 2019), "Identifying and Assessing the Risks of Material Misstatement," paragraph 37

¹⁶ ISA (NZ) 240, paragraph [2538](#)

¹⁷ ISA (NZ) 500, paragraph A35

ISA (NZ) 505

secure and properly controlled, the reliability of the related responses is enhanced. An electronic confirmation process might incorporate various techniques for validating the identity of a sender of information in electronic form, for example, through the use of encryption, electronic digital signatures, and procedures to verify web site authenticity.

A13. If a confirming party uses a third party to coordinate and provide responses to confirmation requests, the auditor may perform procedures to address the risks that:

- (a) The response may not be from the proper source;
- (b) A respondent may not be authorised to respond; and
- (c) The integrity of the transmission may have been compromised.

A14. The auditor is required by ISA (NZ) 500 to determine whether to modify or add procedures to resolve doubts over the reliability of information to be used as audit evidence.¹⁸ The auditor may choose to verify the source and contents of a response to a confirmation request by contacting the confirming party. For example, when a confirming party responds by electronic mail, the auditor may telephone the confirming party to determine whether the confirming party did, in fact, send the response. When a response has been returned to the auditor indirectly (for example, because the confirming party incorrectly addressed it to the entity rather than to the auditor), the auditor may request the confirming party to respond in writing directly to the auditor.

A15. On its own, an oral response to a confirmation request does not meet the definition of an external confirmation because it is not a direct written response to the auditor. However, upon obtaining an oral response to a confirmation request, the auditor may, depending on the circumstances, request the confirming party to respond in writing directly to the auditor. If no such response is received, in accordance with paragraph 12, the auditor seeks other audit evidence to support the information in the oral response.

A16. A response to a confirmation request may contain restrictive language regarding its use. Such restrictions do not necessarily invalidate the reliability of the response as audit evidence.

Unreliable Responses (Ref: Para. 11)

A17. When the auditor concludes that a response is unreliable, the auditor may need to revise the assessment of the risks of material misstatement at the assertion level and modify planned audit procedures accordingly, in accordance with ISA (NZ) 315 (Revised 2019)¹⁹. For example, an unreliable response may indicate a fraud risk factor that requires evaluation in accordance with ISA (NZ) 240.²⁰

Non-Responses (Ref: Para. 12)

A18. Examples of alternative audit procedures the auditor may perform include:

- For accounts receivable balances – examining specific subsequent cash receipts, shipping documentation, and sales near the period-end.
- For accounts payable balances – examining subsequent cash disbursements or correspondence from third parties, and other records, such as goods received notes.

¹⁸ ISA (NZ) 500, paragraph 11

¹⁹ ISA (NZ) 315 (Revised 2019), paragraph 37

²⁰ ISA (NZ) 240, paragraph 2438

ISA (NZ) 505

A19. The nature and extent of alternative audit procedures are affected by the account and assertion in question. A non-response to a confirmation request may indicate a previously unidentified risk of material misstatement. In such situations, the auditor may need to revise the assessed risk of material misstatement at the assertion level, and modify planned audit procedures, in accordance with ISA (NZ) 315 (Revised 2019).²¹ For example, fewer responses to confirmation requests than anticipated, or a greater number of responses than anticipated, may indicate a previously unidentified fraud risk factor that requires evaluation in accordance with ISA (NZ) 240.²²

When a Response to a Positive Confirmation Request Is Necessary to Obtain Sufficient Appropriate Audit Evidence (Ref. Para. 13)

A20. In certain circumstances, the auditor may identify an assessed risk of material misstatement at the assertion level for which a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence. Such circumstances may include where:

- The information available to corroborate management's assertion(s) is only available outside the entity.
- Specific fraud risk factors, such as the risk of management override of controls, or the risk of collusion which can involve employee(s) and/or management, prevent the auditor from relying on evidence from the entity.

Exceptions (Ref. Para. 14)

A21. Exceptions noted in responses to confirmation requests may indicate misstatements or potential misstatements in the financial statements. When a misstatement is identified, the auditor is required by [ISA \(NZ\) 450](#)²³ ~~ISA (NZ) 240~~ to evaluate whether such misstatement is indicative of fraud.²⁴ Exceptions may provide a guide to the quality of responses from similar confirming parties or for similar accounts. Exceptions also may indicate a deficiency, or deficiencies, in the entity's internal control over financial reporting.

A22. Some exceptions do not represent misstatements. For example, the auditor may conclude that differences in responses to confirmation requests are due to timing, measurement, or clerical errors in the external confirmation procedures.

Negative Confirmations (Ref: Para. 15)

A23. The failure to receive a response to a negative confirmation request does not explicitly indicate receipt by the intended confirming party of the confirmation request or verification of the accuracy of the information contained in the request. Accordingly, a failure of a confirming party to respond to a negative confirmation request provides significantly less persuasive audit evidence than does a response to a positive confirmation request. Confirming parties also may be more likely to respond indicating their disagreement with a confirmation request when the information in the request is not in their favour, and less likely to respond otherwise. For example, holders of bank deposit accounts may be more

²¹ ISA (NZ) 315 (Revised 2019), paragraph 37

²² ISA (NZ) 240, paragraph ~~25~~38

²³ [ISA \(NZ\) 450, Evaluation of Misstatements Identified during the Audit, paragraph 6](#)

²⁴ ~~ISA (NZ) 240, paragraph 36~~

ISA (NZ) 505

likely to respond if they believe that the balance in their account is understated in the confirmation request, but may be less likely to respond when they believe the balance is overstated. Therefore, sending negative confirmation requests to holders of bank deposit accounts may be a useful procedure in considering whether such balances may be understated, but is unlikely to be effective if the auditor is seeking evidence regarding overstatement.

Evaluating the Evidence Obtained (Ref: Para. 16)

A24. When evaluating the results of individual external confirmation requests, the auditor may categorise such results as follows:

- (a) A response by the appropriate confirming party indicating agreement with the information provided in the confirmation request, or providing requested information without exception;
- (b) A response deemed unreliable;
- (c) A non-response; or
- (d) A response indicating an exception.

A25. The auditor's evaluation, when taken into account with other audit procedures the auditor may have performed, may assist the auditor in concluding whether sufficient appropriate audit evidence has been obtained or whether further audit evidence is necessary, as required by ISA (NZ) 330.²⁵

²⁵ ISA (NZ) 330, paragraphs 26-27

ISA (NZ) 505

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 505.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 505 *External Confirmations*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

References to “management” and “those charged with governance” have been amended in the ISAs (NZ) because the statutory responsibility for the preparation of the financial statements rests with those charged with governance. ~~-The ISAs require the auditor to obtain written representations from management. -The ISAs (NZ) require written representations from those charged with governance. -Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.~~

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 505.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 505 *External Confirmations*.

ASA 505 conforms to ISA 505.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 505 <i>External Confirmations</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
 EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 510

Initial Audit Engagements – Opening Balances ~~(ISA (NZ) 510)~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the New Zealand Auditing Standards Board of the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including May 2023.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 510 issued by the External Reporting Board in July 2011.~~

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-17-3

Explanatory note

This note is not part of the **Standard**.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 510 *Initial Audit Engagements – Opening Balances* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 510 issued by the External Reporting Board in July 2011 (as amended to May 2023).

The revision of ISA (NZ) 510 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the **Standard**.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This **Standard** reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 510

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 510

INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1
Effective Date	2
Objective	3
Definitions	4
Requirements	
Audit Procedures	5-9
Audit Conclusions and Reporting	10-13
Application and Other Explanatory Material	
Audit Procedures	A1-A7
Audit Conclusions and Reporting	A8-A9
Appendix: Illustrations of Auditors' Reports with Modified Opinions	
<u>Accompanying Attachment: Conformity to the International Standards on Auditing</u>	

International Standard on Auditing (New Zealand) (ISA (NZ)) 510, ***“Initial Audit Engagements – Opening Balances”*** should be read in conjunction with ISA (NZ) 200, ***“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)”***.

History of Amendments

Table of pronouncements – ISA (NZ) 510 *Initial Audit Engagements – Opening Balances*

This table lists the pronouncements establishing and amending ISA (NZ) 510.

Pronouncements	Date approved	<u>Application</u> Effective date
International Standard on Auditing (New Zealand) 510	<u>October 2025</u> <u>July 2011</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September 2011.</u>
Use of management and those charged with governance	<u>December 2013</u>	<u>Effective for audits of financial statements for periods beginning on or after 1 July 2014.</u>
Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update)	<u>February 2014</u>	<u>Effective for assurance engagements relating to financial statements for periods beginning on or after 1 April 2014.</u>
Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting)	<u>September 2015</u>	<u>Effective for audits of financial statements for periods ending on or after 15 December 2016.</u>
Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1	<u>June 2020</u>	<u>Effective on 15 July 2020.</u>
Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)	<u>February 2020</u>	<u>Effective for audits of financial statements for periods beginning on or after 15 December 2021.</u>
Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)	<u>June 2022</u>	<u>Effective for audits of group financial statements for periods beginning on or after 15 December 2023.</u>
Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards	<u>May 2023</u>	<u>Mandatory date of 1 January 2023.</u>

ISA (NZ) 510

Table of Amended Paragraphs in ISA (NZ) 510		
Paragraph affected	How affected	By...[date]
Various	Amended	Use of management and those charged with governance [Dec 2013]
Appendix	Amended	Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update) [Feb 2014]
Appendix	Amended	Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting) [Sept 2015]
Appendix	Amended	Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]
Paragraphs 9 to 13	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [Feb 2020]
Appendix – Illustration 1, 2, Footnote 6	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]
Appendix	Amended	Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards [May 2023]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating to opening balances in an initial audit engagement. In addition to financial statement amounts, opening balances include matters requiring disclosure that existed at the beginning of the period, such as contingencies and commitments. When the financial statements include comparative financial information, the requirements and guidance in ISA (NZ) 710² also apply. ISA (NZ) 300³ includes additional requirements and guidance regarding activities prior to starting an initial audit.

Effective Date

2. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ 2.1 This Standard repeals ISA (NZ) 510 *Initial Audit Engagements – Opening Balances* issued in July 2011.

Objective

3. In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:
 - (a) Opening balances contain misstatements that materially affect the current period's financial statements; and
 - (b) Appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

Definitions

4. For the purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Initial audit engagement – An engagement in which either:
 - (i) The financial statements for the prior period were not audited; or
 - (ii) The financial statements for the prior period were audited by a predecessor auditor.
 - (b) Opening balances – Those account balances that exist at the beginning of the period. Opening balances are based upon the closing balances of the prior period and reflect the effects of transactions and events of prior periods and accounting policies applied in the prior period. Opening balances also include matters

² ISA (NZ) 710, “Comparative Information - Corresponding Figures and Comparative Financial Statements.”

³ ISA (NZ) 300, “Planning an Audit of Financial Statements.”

requiring disclosure that existed at the beginning of the period, such as contingencies and commitments.

- (c) Predecessor auditor – The auditor from a different audit firm, who audited the financial statements of an entity in the prior period and who has been replaced by the current auditor.

Requirements

Audit Procedures

Opening Balances

5. The auditor shall read the most recent financial statements, if any, and the predecessor auditor's report thereon, if any, for information relevant to opening balances, including disclosures.
6. The auditor shall obtain sufficient appropriate audit evidence about whether the opening balances contain misstatements that materially affect the current period's financial statements by: (Ref: Para. A1–A2)
 - (a) Determining whether the prior period's closing balances have been correctly brought forward to the current period or, when appropriate, have been restated;
 - (b) Determining whether the opening balances reflect the application of appropriate accounting policies; and
 - (c) Performing one or more of the following: (Ref: Para. A3–A7)
 - (i) Where the prior year financial statements were audited, reviewing the predecessor auditor's working papers to obtain evidence regarding the opening balances;
 - (ii) Evaluating whether audit procedures performed in the current period provide evidence relevant to the opening balances; or
 - (iii) Performing specific audit procedures to obtain evidence regarding the opening balances.
7. If the auditor obtains audit evidence that the opening balances contain misstatements that could materially affect the current period's financial statements, the auditor shall perform such additional audit procedures as are appropriate in the circumstances to determine the effect on the current period's financial statements. If the auditor concludes that such misstatements exist in the current period's financial statements, the auditor shall communicate the misstatements with the appropriate level of management and those charged with governance in accordance with ISA (NZ) 450.⁴

Consistency of Accounting Policies

8. The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, and whether changes in the accounting policies have been appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.

⁴ ISA (NZ) 450, "Evaluation of Misstatements Identified during the Audit," paragraphs 98 and 1213.

Relevant Information in the Predecessor Auditor's Report

9. If the prior period's financial statements were audited by a predecessor auditor and there was a modification to the opinion, the auditor shall evaluate the effect of the matter giving rise to the modification in assessing the risks of material misstatement in the current period's financial statements in accordance with ISA (NZ) 315 (Revised 2019).⁵

Audit Conclusions and Reporting*Opening Balances*

10. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with ISA (NZ) 705 (Revised).⁶ (Ref: Para. A8)
11. If the auditor concludes that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not appropriately accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate, in accordance with ISA (NZ) 705 (Revised).

Consistency of Accounting Policies

12. If the auditor concludes that:
 - (a) the current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework; or
 - (b) a change in accounting policies is not appropriately accounted for or not adequately presented or disclosed in accordance with the applicable financial reporting framework,
 the auditor shall express a qualified opinion or an adverse opinion as appropriate in accordance with ISA (NZ) 705 (Revised).

Modification to the Opinion in the Predecessor Auditor's Report

13. If the predecessor auditor's opinion regarding the prior period's financial statements included a modification to the auditor's opinion that remains relevant and material to the current period's financial statements, the auditor shall modify the auditor's opinion on the current period's financial statements in accordance with ISA (NZ) 705 (Revised) and ISA (NZ) 710. (Ref: Para. A9)

⁵ ISA (NZ) 315 (Revised 2019), "Identifying and Assessing the Risks of Material Misstatement."

⁶ ISA (NZ) 705 (Revised), "Modifications to the Opinion in the Independent Auditor's Report."

Application and Other Explanatory Material

Audit Procedures

Considerations Specific to Public Sector Entities (Ref: Para. 6)

- A1. In the public sector, there may be legal or regulatory limitations on the information that the current auditor can obtain from a predecessor auditor. For example, if a public sector entity that has previously been audited by a statutorily appointed auditor (for example, the Auditor-General, or other suitably qualified person appointed on behalf of the Auditor-General) is privatised, the amount of access to working papers or other information that the statutorily appointed auditor can provide a newly-appointed auditor that is in the private sector may be constrained by privacy or secrecy laws or regulation. In situations where such communications are constrained, audit evidence may need to be obtained through other means and, if sufficient appropriate audit evidence cannot be obtained, consideration given to the effect on the auditor's opinion.
- A2. If the statutorily appointed auditor outsources an audit of a public sector entity to a private sector audit firm, and the statutorily appointed auditor appoints an audit firm other than the firm that audited the financial statements of the public sector entity in the prior period, this is not usually regarded as a change in auditors for the statutorily appointed auditor. Depending on the nature of the outsourcing arrangement, however, the audit engagement may be considered an initial audit engagement from the perspective of the private sector auditor in fulfilling the auditor's responsibilities, and therefore this ISA (NZ) applies.

Opening Balances (Ref: Para. 6(c))

- A3. The nature and extent of audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances depend on such matters as:
- The accounting policies followed by the entity.
 - The nature of the account balances, classes of transactions and disclosures and the risks of material misstatement in the current period's financial statements.
 - The significance of the opening balances relative to the current period's financial statements.
 - Whether the prior period's financial statements were audited and, if so, whether the predecessor auditor's opinion was modified.
- A4. If the prior period's financial statements were audited by a predecessor auditor, the auditor may be able to obtain sufficient appropriate audit evidence regarding the opening balances by reviewing the predecessor auditor's working papers. Whether such a review provides sufficient appropriate audit evidence is influenced by the professional competence and independence of the predecessor auditor.
- A5. Relevant ethical and professional requirements guide the current auditor's communications with the predecessor auditor.
- A6. For current assets and liabilities, some audit evidence about opening balances may be obtained as part of the current period's audit procedures. For example, the collection (payment) of opening accounts receivable (accounts payable) during the current period will provide some audit evidence of their existence, rights and obligations, completeness and valuation at the beginning of the period. In the case of inventories,

ISA (NZ) 510

however, the current period's audit procedures on the closing inventory balance provide little audit evidence regarding inventory on hand at the beginning of the period. Therefore, additional audit procedures may be necessary, and one or more of the following may provide sufficient appropriate audit evidence:

- Observing a current physical inventory count and reconciling it to the opening inventory quantities.
- Performing audit procedures on the valuation of the opening inventory items.
- Performing audit procedures on gross profit and cutoff.

A7. For non-current assets and liabilities, such as property plant and equipment, investments and long-term debt, some audit evidence may be obtained by examining the accounting records and other information underlying the opening balances. In certain cases, the auditor may be able to obtain some audit evidence regarding opening balances through confirmation with third parties, for example, for long-term debt and investments. In other cases, the auditor may need to carry out additional audit procedures.

Audit Conclusions and Reporting*Opening Balances (Ref: Para. 10)*

A8. ISA (NZ) 705 establishes requirements and provides guidance on circumstances that may result in a modification to the auditor's opinion on the financial statements, the type of opinion appropriate in the circumstances, and the content of the auditor's report when the auditor's opinion is modified. The inability of the auditor to obtain sufficient appropriate audit evidence regarding opening balances may result in one of the following modifications to the opinion in the auditor's report:

- (a) A qualified opinion or a disclaimer of opinion, as is appropriate in the circumstances; or
- (b) Unless prohibited by law or regulation, an opinion which is qualified or disclaimed, as appropriate, regarding the results of operations, and cash flows, where relevant, and unmodified regarding financial position.

The Appendix includes illustrative auditors' reports.

Modification to the Opinion in the Predecessor Auditor's Report (Ref: Para. 13)

A9. In some situations, a modification to the predecessor auditor's opinion may not be relevant and material to the opinion on the current period's financial statements. This may be the case where, for example, there was a scope limitation in the prior period, but the matter giving rise to the scope limitation has been resolved in the current period.

Appendix

(Ref: Para. A8)

Illustrations of Auditors' Reports with Modified Opinions

~~Note: Throughout these illustrative auditor's reports, the *Opinion* section has been positioned first in accordance with ISA (NZ) 700 (Revised), and the *Basis for Opinion* section is positioned immediately after the *Opinion* section. Also, the first and last sentence that was included in the extant auditor's responsibilities section is now subsumed as part of the new *Basis for Opinion* section.~~

[NZ] Illustration 1:

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)⁷ does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to [International Financial Reporting Standards—IFRS Accounting Standards](#) (NZ IFRS) (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210⁸.
- The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.
- The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.⁹
- The financial position at year end is fairly presented.
- In this particular jurisdiction, law and regulation prohibit the auditor from giving an opinion which is qualified regarding the financial performance and cash flows and unmodified regarding financial position.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt~~

⁷ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁸ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*

⁹ If the possible effects, in the auditor's judgement, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim an opinion on the financial performance and cash flows.

ISA (NZ) 510

~~on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (Revised)¹⁰.

- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701¹¹.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

This example has not been included in ISA (NZ) 510 as there is no law or regulation in New Zealand that prohibits the auditor from giving an opinion which is qualified regarding the financial performance and cash flows and unmodified regarding financial position.

¹⁰ ISA (NZ) 570 (Revised), *Going Concern*.

¹¹ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

[NZ] Illustration 2:

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to [International Financial Reporting Standards—IFRS Accounting Standards](#) (NZ IFRS) (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.
- The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.¹²
- The financial position at year end is fairly presented.
- An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered appropriate in the circumstances.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

¹² If the possible effects, in the auditor's judgement, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim the opinion on the financial performance and cash flows.

ISA (NZ) 510

|

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements¹³

Opinions

We have audited the financial statements of ABC Company (the Company) which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

Qualified Opinion on the Financial Performance and Cash Flows

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying Statement of Comprehensive Income and Statement of Cash Flows present fairly, in all material respects (*or give a true and fair view of*), the financial performance and cash flows of the Company for the year ended December 31, 20X1 in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#) (NZ IFRS).

Opinion on the Financial Position

In our opinion, the accompanying statement of financial position presents fairly, in all material respects (*or gives a true and fair view of*), the financial position of the Company as at December 31, 20X1 in accordance with NZ IFRS.

Basis for Opinions, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows

We were appointed as auditors of the Company on June 30, 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the income statement and the net cash flows from operating activities reported in the statement of cash flows.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position and our qualified audit opinion on the financial performance and cash flows.

¹³ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Matter

The financial statements of the Company for the year ended December 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

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

Directors' Responsibilities for the Financial Statements¹⁴

[Reporting in accordance with ISA (NZ) 700 (Revised)-see Illustration 1 in ISA (NZ) 700 (Revised)].

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised)-see Illustration 1 in ISA (NZ) 700 (Revised)].

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised)-see Illustration 1 in ISA (NZ) 700 (Revised)].

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

[Auditor address]

[Date]

¹⁴ Or other terms that are appropriate in the context of the legal framework for the entity.

ISA (NZ) 510

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 510.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 510 *Initial Audit Engagements – Opening Balances*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand ~~References to publicly traded entities have been broadened to refer to FMC reporting entities considered to have a higher level of public accountability in New Zealand.~~

Compliance with this ISA (NZ) enables compliance with ISA 510.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 510 *Initial Audit Engagements – Opening Balances*.

ASA 510 conforms to ISA 510.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 510 <i>Initial Audit Engagements – Opening Balances</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 530

Audit Sampling ~~(ISA (NZ) 530)~~

~~Issued July 2011~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.~~

~~This compilation was prepared in June 2021 and incorporates amendments up to and including June 2020.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 530 issued by the External Reporting Board in July 2011.~~

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-19-7

Explanatory note

This note is not part of the **Standard**.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 530 *Audit Sampling* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 530 issued by the External Reporting Board in July 2011 (as amended to February 2020).

The revision of ISA (NZ) 530 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the **Standard**.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This **Standards** reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 530

AUDIT SAMPLING

Issued by the External Reporting Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1-2
Effective Date	3
Objective	4
Definitions	5
Requirements	
Sample Design, Size and Selection of Items for Testing	6-8
Performing Audit Procedures	9-11
Nature and Cause of Deviations and Misstatements	12-13
Projecting Misstatements	14
Evaluating Results of Audit Sampling	15
Application and Other Explanatory Material	
Definitions	A1-A3
Sample Design, Size and Selection of Items for Testing	A4-A13
Performing Audit Procedures	A14-A16
Nature and Cause of Deviations and Misstatements	A17
Projecting Misstatements	A18-A20
Evaluating Results of Audit Sampling	A21-A23
Appendix 1: Stratification and Value-Weighted Selection	
Appendix 2: Examples of Factors Influencing Sample Size for Tests of Controls	
Appendix 3: Examples of Factors Influencing Sample Size for Tests of Details	
Appendix 4: Sample Selection Methods	
<u>Accompanying Attachment: Similarity to the International Standards on Auditing</u>	

International Standard on Auditing (New Zealand) (ISA (NZ)) 530, “**Audit Sampling**” should be read in conjunction with ISA (NZ) 200, “**Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)**.”

ISA (NZ) 530**History of Amendments****Table of pronouncements – ISA (NZ) 530 *Audit Sampling***

This table lists the pronouncements establishing and amending ISA (NZ) 530.

Pronouncements	Date approved	<u>Application</u> ~~Effective date~~
International Standard on Auditing (New Zealand) 530	<u>October 2025</u> ~~July 2011~~	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.</u>
~~Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021~~

Table of Amended Paragraphs in ISA (NZ) 530		
Paragraph affected	How affected	By...[date]
~~A7~~	~~Amended~~	~~Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) applies when the auditor has decided to use audit sampling in performing audit procedures. It deals with the auditor's use of statistical and non-statistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample.
2. This ISA (NZ) complements ISA (NZ) 500² which deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. ISA (NZ) 500 provides guidance on the means available to the auditor for selecting items for testing, of which audit sampling is one means.

Effective Date

3. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ 3.1 This Standard repeals ISA (NZ) 530 *Audit Sampling* issued in July 2011.

Objective

4. The objective of the auditor, when using audit sampling, is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected.

Definitions

5. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Audit sampling (sampling) – The application of audit procedures to less than 100% of items within a population of audit relevance such that all sampling units have a chance of selection in order to provide the auditor with a reasonable basis on which to draw conclusions about the entire population.
 - (b) Population – The entire set of data from which a sample is selected and about which the auditor wishes to draw conclusions.
 - (c) Sampling risk – The risk that the auditor's conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure. Sampling risk can lead to two types of erroneous conclusions:
 - (i) In the case of a test of controls, that controls are more effective than they actually are, or in the case of a test of details, that a material misstatement does not exist when in fact it does. The auditor is primarily concerned with this type of erroneous conclusion because it affects audit effectiveness and is more likely to lead to an inappropriate audit opinion.
 - (ii) In the case of a test of controls, that controls are less effective than they actually are, or in the case of a test of details, that a material misstatement exists when in fact it does not. This type of erroneous conclusion affects

² ISA (NZ) 500, *Audit Evidence*

ISA (NZ) 530

audit efficiency as it would usually lead to additional work to establish that initial conclusions were incorrect.

- (d) Non-sampling risk – The risk that the auditor reaches an erroneous conclusion for any reason not related to sampling risk. (Ref: Para A1)
- (e) Anomaly – A misstatement or deviation that is demonstrably not representative of misstatements or deviations in a population.
- (f) Sampling unit – The individual items constituting a population. (Ref: Para A2)
- (g) Statistical sampling – An approach to sampling that has the following characteristics:
 - (i) Random selection of the sample items; and
 - (ii) The use of probability theory to evaluate sample results, including measurement of sampling risk.

A sampling approach that does not have characteristics (i) and (ii) is considered non-statistical sampling.

- (h) Stratification – The process of dividing a population into sub-populations, each of which is a group of sampling units which have similar characteristics (often monetary value).
- (i) Tolerable misstatement – A monetary amount set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the monetary amount set by the auditor is not exceeded by the actual misstatement in the population. (Ref: Para A3)
- (j) Tolerable rate of deviation – A rate of deviation from prescribed internal control procedures set by the auditor in respect of which the auditor seeks to obtain an appropriate level of assurance that the rate of deviation set by the auditor is not exceeded by the actual rate of deviation in the population.

Requirements

Sample Design, Size and Selection of Items for Testing

- 6. When designing an audit sample, the auditor shall consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A4-A9)
- 7. The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level. (Ref: Para. A10-A11)
- 8. The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection. (Ref: Para. A12-A13)

Performing Audit Procedures

- 9. The auditor shall perform audit procedures, appropriate to the purpose, on each item selected.
- 10. If the audit procedure is not applicable to the selected item, the auditor shall perform the procedure on a replacement item. (Ref: Para. A14)
- 11. If the auditor is unable to apply the designed audit procedures, or suitable alternative procedures, to a selected item, the auditor shall treat that item as a deviation from the

prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details. (Ref: Para. A15-A16)

Nature and Cause of Deviations and Misstatements

12. The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit. (Ref: Para. A17)
13. In the extremely rare circumstances when the auditor considers a misstatement or deviation discovered in a sample to be an anomaly, the auditor shall obtain a high degree of certainty that such misstatement or deviation is not representative of the population. The auditor shall obtain this degree of certainty by performing additional audit procedures to obtain sufficient appropriate audit evidence that the misstatement or deviation does not affect the remainder of the population.

Projecting Misstatements

14. For tests of details, the auditor shall project misstatements found in the sample to the population. (Ref: Para. A18-A20)

Evaluating Results of Audit Sampling

15. The auditor shall evaluate:
 - (a) The results of the sample; and (Ref: Para. A21-A22)
 - (b) Whether the use of audit sampling has provided a reasonable basis for conclusions about the population that has been tested. (Ref: Para. A23)

Application and Other Explanatory Material

Definitions

Non-sampling Risk (Ref: Para. 5(d))

- A1. Examples of non-sampling risk include use of inappropriate audit procedures, or misinterpretation of audit evidence and failure to recognise a misstatement or deviation.

Sampling Unit (Ref: Para. 5(f))

- A2. The sampling units might be physical items (for example, cheques listed on deposit slips, credit entries on bank statements, sales invoices or debtors' balances) or monetary units.

Tolerable Misstatement (Ref: Para. 5(i))

- A3. When designing a sample, the auditor determines tolerable misstatement in order to address the risk that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated and provide a margin for possible undetected misstatements. Tolerable misstatement is the application of performance

materiality, as defined in ISA (NZ) 320³, to a particular sampling procedure. Tolerable misstatement may be the same amount or an amount lower than performance materiality.

Sample Design, Size and Selection of Items for Testing

Sample Design (Ref: Para. 6)

- A4. Audit sampling enables the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn. Audit sampling can be applied using either non-statistical or statistical sampling approaches.
- A5. When designing an audit sample, the auditor's consideration includes the specific purpose to be achieved and the combination of audit procedures that is likely to best achieve that purpose. Consideration of the nature of the audit evidence sought and possible deviation or misstatement conditions or other characteristics relating to that audit evidence will assist the auditor in defining what constitutes a deviation or misstatement and what population to use for sampling. In fulfilling the requirement of paragraph 10 of ISA (NZ) 500, when performing audit sampling, the auditor performs audit procedures to obtain evidence that the population from which the audit sample is drawn is complete.
- A6. The auditor's consideration of the purpose of the audit procedure, as required by paragraph 6, includes a clear understanding of what constitutes a deviation or misstatement so that all, and only, those conditions that are relevant to the purpose of the audit procedure are included in the evaluation of deviations or projection of misstatements. For example, in a test of details relating to the existence of accounts receivable, such as confirmation, payments made by the customer before the confirmation date but received shortly after that date by the client, are not considered a misstatement. Also, a misposting between customer accounts does not affect the total accounts receivable balance. Therefore, it may not be appropriate to consider this a misstatement in evaluating the sample results of this particular audit procedure, even though it may have an important effect on other areas of the audit, such as the assessment of the risks of material misstatement due to fraud or the adequacy of the allowance for doubtful accounts.
- A7. In considering the characteristics of a population, for tests of controls, the auditor makes an assessment of the expected rate of deviation based on the auditor's understanding of the controls or on the examination of a small number of items from the population. This assessment is made in order to design an audit sample and to determine sample size. For example, if the expected rate of deviation is unacceptably high, the auditor will normally decide not to perform tests of controls. Similarly, for tests of details, the auditor makes an assessment of the expected misstatement in the population. If the expected misstatement is high, 100% examination or use of a large sample size may be appropriate when performing tests of details.
- A8. In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection is appropriate. Appendix 1 provides further discussion on stratification and value-weighted selection.

³ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 9.

- A9. The decision whether to use a statistical or non-statistical sampling approach is a matter for the auditor's judgement; however, sample size is not a valid criterion to distinguish between statistical and non-statistical approaches.

Sample Size (Ref: Para. 7)

- A10. The level of sampling risk that the auditor is willing to accept affects the sample size required. The lower the risk the auditor is willing to accept, the greater the sample size will need to be.
- A11. The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgement. Appendices 2 and 3 indicate the influences that various factors typically have on the determination of sample size. When circumstances are similar, the effect on sample size of factors such as those identified in Appendices 2 and 3 will be similar regardless of whether a statistical or non-statistical approach is chosen.

Selection of Items for Testing (Ref: Para. 8)

- A12. With statistical sampling, sample items are selected in a way that each sampling unit has a known probability of being selected. With non-statistical sampling, judgement is used to select sample items. Because the purpose of sampling is to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected, it is important that the auditor selects a representative sample, so that bias is avoided, by choosing sample items which have characteristics typical of the population.
- A13. The principal methods of selecting samples are the use of random selection, systematic selection and haphazard selection. Each of these methods is discussed in Appendix 4.

Performing Audit Procedures (Ref: Para. 10-11)

- A14. An example of when it is necessary to perform the procedure on a replacement item is when a cancelled cheque is selected while testing for evidence of payment authorisation. If the auditor is satisfied that the cheque has been properly cancelled such that it does not constitute a deviation, an appropriately chosen replacement is examined.
- A15. An example of when the auditor is unable to apply the designed audit procedures to a selected item is when documentation relating to that item has been lost.
- A16. An example of a suitable alternative procedure might be the examination of subsequent cash receipts together with evidence of their source and the items they are intended to settle when no reply has been received in response to a positive confirmation request.

Nature and Cause of Deviations and Misstatements (Ref: Para. 12)

- A17. In analysing the deviations and misstatements identified, the auditor may observe that many have a common feature, for example, type of transaction, location, product line or period of time. In such circumstances, the auditor may decide to identify all items in the population that possess the common feature, and extend audit procedures to those items. In addition, such deviations or misstatements may be intentional, and may indicate the possibility of fraud.

Projecting Misstatements (Ref: Para. 14)

- A18. The auditor is required to project misstatements for the population to obtain a broad view of the scale of misstatement but this projection may not be sufficient to determine an amount to be recorded.
- A19. When a misstatement has been established as an anomaly, it may be excluded when projecting misstatements to the population. However, the effect of any such misstatement, if uncorrected, still needs to be considered in addition to the projection of the non-anomalous misstatements.
- A20. For tests of controls, no explicit projection of deviations is necessary since the sample deviation rate is also the projected deviation rate for the population as a whole. ISA (NZ) 330⁴ provides guidance when deviations from controls upon which the auditor intends to rely are detected.

Evaluating Results of Audit Sampling (Ref: Para. 15)

- A21. For tests of controls, an unexpectedly high sample deviation rate may lead to an increase in the assessed risk of material misstatement, unless further audit evidence substantiating the initial assessment is obtained. For tests of details, an unexpectedly high misstatement amount in a sample may cause the auditor to believe that a class of transactions or account balance is materially misstated, in the absence of further audit evidence that no material misstatement exists.
- A22. In the case of tests of details, the projected misstatement plus anomalous misstatement, if any, is the auditor's best estimate of misstatement in the population. When the projected misstatement plus anomalous misstatement, if any, exceeds tolerable misstatement, the sample does not provide a reasonable basis for conclusions about the population that has been tested. The closer the projected misstatement plus anomalous misstatement is to tolerable misstatement, the more likely that actual misstatement in the population may exceed tolerable misstatement. Also if the projected misstatement is greater than the auditor's expectations of misstatement used to determine the sample size, the auditor may conclude that there is an unacceptable sampling risk that the actual misstatement in the population exceeds the tolerable misstatement. Considering the results of other audit procedures helps the auditor to assess the risk that actual misstatement in the population exceeds tolerable misstatement, and the risk may be reduced if additional audit evidence is obtained.
- A23. If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population that has been tested, the auditor may:
- Request management to investigate misstatements that have been identified and the potential for further misstatements and to make any necessary adjustments; or
 - Tailor the nature, timing and extent of those further audit procedures to best achieve the required assurance. For example, in the case of tests of controls, the auditor might extend the sample size, test an alternative control or modify related substantive procedures.

⁴ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, paragraph 17.

Appendix 1

(Ref: Para. A8)

Stratification and Value-Weighted Selection

In considering the characteristics of the population from which the sample will be drawn, the auditor may determine that stratification or value-weighted selection is appropriate. This Appendix provides guidance to the auditor on the use of stratification and value-weighted sampling techniques.

Stratification

1. Audit efficiency may be improved if the auditor stratifies a population by dividing it into discrete sub-populations which have an identifying characteristic. The objective of stratification is to reduce the variability of items within each stratum and therefore allow sample size to be reduced without increasing sampling risk.
2. When performing tests of details, the population is often stratified by monetary value. This allows greater audit effort to be directed to the larger value items, as these items may contain the greatest potential misstatement in terms of overstatement. Similarly, a population may be stratified according to a particular characteristic that indicates a higher risk of misstatement, for example, when testing the allowance for doubtful accounts in the valuation of accounts receivable, balances may be stratified by age.
3. The results of audit procedures applied to a sample of items within a stratum can only be projected to the items that make up that stratum. To draw a conclusion on the entire population, the auditor will need to consider the risk of material misstatement in relation to whatever other strata make up the entire population. For example, 20% of the items in a population may make up 90% of the value of an account balance. The auditor may decide to examine a sample of these items. The auditor evaluates the results of this sample and reaches a conclusion on the 90% of value separately from the remaining 10% (on which a further sample or other means of gathering audit evidence will be used, or which may be considered immaterial).
4. If a class of transactions or account balance has been divided into strata, the misstatement is projected for each stratum separately. Projected misstatements for each stratum are then combined when considering the possible effect of misstatements on the total class of transactions or account balance.

Value-Weighted Selection

5. When performing tests of details it may be efficient to identify the sampling unit as the individual monetary units that make up the population. Having selected specific monetary units from within the population, for example, the accounts receivable balance, the auditor may then examine the particular items, for example, individual balances, that contain those monetary units. One benefit of this approach to defining the sampling unit is that audit effort is directed to the larger value items because they have a greater chance of selection, and can result in smaller sample sizes. This approach may be used in conjunction with the systematic method of sample selection (described in Appendix 4) and is most efficient when selecting items using random selection.

Examples of Factors Influencing Sample Size for Tests of Controls

The following are factors that the auditor may consider when determining the sample size for tests of controls. These factors, which need to be considered together, assume the auditor does not modify the nature or timing of tests of controls or otherwise modify the approach to substantive procedures in response to assessed risks.

FACTOR	EFFECT ON SAMPLE SIZE	
1. An increase in the extent to which the auditor's risk assessment takes into account plans to test the operating effectiveness of controls	Increase	The more assurance the auditor intends to obtain from the operating effectiveness of controls, the lower the auditor's assessment of the risk of material misstatement will be, and the larger the sample size will need to be. When the auditor's assessment of the risk of material misstatement at the assertion level includes an expectation of the operating effectiveness of controls, the auditor is required to perform tests of controls. Other things being equal, the greater the reliance the auditor places on the operating effectiveness of controls in the risk assessment, the greater is the extent of the auditor's tests of controls (and therefore, the sample size is increased).
2. An increase in the tolerable rate of deviation	Decrease	The lower the tolerable rate of deviation, the larger the sample size needs to be.
3. An increase in the expected rate of deviation of the population to be tested	Increase	The higher the expected rate of deviation, the larger the sample size needs to be so that the auditor is in a position to make a reasonable estimate of the actual rate of deviation. Factors relevant to the auditor's consideration of the expected rate of deviation include the auditor's understanding of the business (in particular, risk assessment procedures undertaken to obtain an understanding of internal control), changes in personnel or in internal

ISA (NZ) 530

FACTOR	EFFECT ON SAMPLE SIZE	
		control, the results of audit procedures applied in prior periods and the results of other audit procedures. High expected control deviation rates ordinarily warrant little, if any, reduction of the assessed risk of material misstatement.
4. An increase in the auditor's desired level of assurance that the tolerable rate of deviation is not exceeded by the actual rate of deviation in the population	Increase	The greater the level of assurance that the auditor desires that the results of the sample are in fact indicative of the actual incidence of deviation in the population, the larger the sample size needs to be.
5. An increase in the number of sampling units in the population	Negligible effect	For large populations, the actual size of the population has little, if any, effect on sample size. For small populations however, audit sampling may not be as efficient as alternative means of obtaining sufficient appropriate audit evidence.

ISA (NZ) 530**Appendix 3**

(Ref: Para. A11)

Examples of Factors Influencing Sample Size for Tests of Details

The following are factors that the auditor may consider when determining the sample size for tests of details. These factors, which need to be considered together, assume the auditor does not modify the approach to tests of controls or otherwise modify the nature or timing of substantive procedures in response to the assessed risks.

FACTOR	EFFECT ON SAMPLE SIZE	
1. An increase in the auditor's assessment of the risk of material misstatement	Increase	The higher the auditor's assessment of the risk of material misstatement, the larger the sample size needs to be. The auditor's assessment of the risk of material misstatement is affected by inherent risk and control risk. For example, if the auditor does not perform tests of controls, the auditor's risk assessment cannot be reduced for the effective operation of internal controls with respect to the particular assertion. Therefore, in order to reduce audit risk to an acceptably low level, the auditor needs a low detection risk and will rely more on substantive procedures. The more audit evidence that is obtained from tests of details (that is, the lower the detection risk), the larger the sample size will need to be.
2. An increase in the use of other substantive procedures directed at the same assertion	Decrease	The more the auditor is relying on other substantive procedures (tests of details or substantive analytical procedures) to reduce to an acceptable level the detection risk regarding a particular population, the less assurance the auditor will require from sampling and, therefore, the smaller the sample size can be.

ISA (NZ) 530

FACTOR	EFFECT ON SAMPLE SIZE	
3. An increase in the auditor's desired level of assurance that tolerable misstatement is not exceeded by actual misstatement in the population	Increase	The greater the level of assurance that the auditor requires that the results of the sample are in fact indicative of the actual amount of misstatement in the population, the larger the sample size needs to be.
4. An increase in tolerable misstatement	Decrease	The lower the tolerable misstatement, the larger the sample size needs to be.
5. An increase in the amount of misstatement the auditor expects to find in the population	Increase	The greater the amount of misstatement the auditor expects to find in the population, the larger the sample size needs to be in order to make a reasonable estimate of the actual amount of misstatement in the population. Factors relevant to the auditor's consideration of the expected misstatement amount include the extent to which item values are determined subjectively, the results of risk assessment procedures, the results of tests of controls, the results of audit procedures applied in prior periods, and the results of other substantive procedures.
6. Stratification of the population when appropriate	Decrease	When there is a wide range (variability) in the monetary size of items in the population, it may be useful to stratify the population. When a population can be appropriately stratified, the aggregate of the sample sizes from the strata generally will be less than the sample size that would have been required to attain a given level of sampling risk, had one sample been drawn from the whole population.
7. The number of sampling units in the population	Negligible effect	For large populations, the actual size of the population has little, if any, effect on sample size. Thus, for small populations, audit sampling is often not as efficient as alternative means of obtaining sufficient appropriate audit

ISA (NZ) 530

FACTOR	EFFECT ON SAMPLE SIZE	
		evidence. (However, when using monetary unit sampling, an increase in the monetary value of the population increases sample size, unless this is offset by a proportional increase in materiality for the financial statements as a whole [and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures].)

Appendix 4

(Ref: Para. A13)

Sample Selection Methods

There are many methods of selecting samples. The principal methods are as follows:

- (a) Random selection (applied through random number generators, for example, random number tables).
- (b) Systematic selection, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected. Although the starting point may be determined haphazardly, the sample is more likely to be truly random if it is determined by use of a computerised random number generator or random number tables. When using systematic selection, the auditor would need to determine that sampling units within the population are not structured in such a way that the sampling interval corresponds with a particular pattern in the population.
- (c) Monetary Unit Sampling is a type of value-weighted selection (as described in Appendix 1) in which sample size, selection and evaluation results in a conclusion in monetary amounts.
- (d) Haphazard selection, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability (for example, avoiding difficult to locate items, or always choosing or avoiding the first or last entries on a page) and thus attempt to ensure that all items in the population have a chance of selection. Haphazard selection is not appropriate when using statistical sampling.
- (e) Block selection involves selection of a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling because most populations are structured such that items in a sequence can be expected to have similar characteristics to each other, but different characteristics from items elsewhere in the population. Although in some circumstances it may be an appropriate audit procedure to examine a block of items, it would rarely be an appropriate sample selection technique when the auditor intends to draw valid inferences about the entire population based on the sample.

ISA (NZ) 530**ACCOMPANYING ATTACHMENT: ~~SIMILARITY~~ CONFORMITY TO THE
INTERNATIONAL STANDARDS ON AUDITING**

~~This conformity statement is not part of the standard.~~

~~This conformity statement accompanies but is not part of ISA (NZ) 530.~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 530 *Audit Sampling*, issued by the International Auditing and Assurance Standards Board (~~IAASB~~), ~~an independent standard-setting board of the International Federation of Accountants (IFAC)~~.

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 530.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 530 *Audit Sampling*.

ASA 530 conforms to ISA 530.

Minimum Legislative Information

(This information is not part of the standard)

This sStandard is secondary legislation issued under the authority of the Legislation Act 2019.

Title International Standard on Auditing (New Zealand) 530 *Audit Sampling*

Principal or amendment Principal

Consolidated version No

Empowering Act and provisions This sStandard was made under section 12-(b) of the Financial Reporting Act 2013.

Replacement empowering Act and provision Not applicable.

Maker name New Zealand Auditing and Assurance Standards Board of the External Reporting Board

Administering agency External Reporting Board

Date made 24 October 2025

Publication date 30 October 2025

Notification date 30 October 2025

Commencement date This sStandard takes effect on 27 November 2025.

End date Not applicable

Consolidation as at date Not applicable

Related instruments Not applicable.

ISA (NZ) 540 (Revised)Issued ~~11/18~~10/25

Compiled 05/22



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 540 (Revised)**Auditing Accounting Estimates and Related Disclosures (ISA (NZ) 540 (Revised))**

~~This Standard was issued on 8 November 2018 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 6 December 2018.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods beginning on or after 15 December 2019. However, early adoption is permitted.~~

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

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

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

~~This compilation was prepared in May 2022 and incorporates amendments up to and including July 2021.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 540 (Revised) issued by the External Reporting Board in November 2018.

COPYRIGHT

© External Reporting Board (“XRB”) 2018

~~This XRB standard contains copyright material and reproduces, with permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (IAASB), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source.~~

~~Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz~~

~~All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org~~

ISBN 978-0-947505-57-8

Explanatory note

This note is not part of the **Standard**.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 540 (Revised) *Auditing Accounting Estimates and Related Disclosures* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 540 (Revised) issued by the External Reporting Board in November 2011 (as amended to July 2021).

The revision of ISA (NZ) 540 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the **Standard**.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This **Standard** reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 540 (Revised)

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

AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1
Nature of Accounting Estimates	2-3
Key Concepts of This ISA (NZ)	4-9
Effective Date	10-NZ10.1
Objective	11
Definitions	12
Requirements	
Risk Assessment Procedures and Related Activities	13-15
Identifying and Assessing the Risks of Material Misstatement	16-17
Responses to the Assessed Risks of Material Misstatement	18-30
Disclosures Related to Accounting Estimates	31
Indicators of Possible Management Bias	32
Overall Evaluation Based on Audit Procedures Performed	33-36
Written Representations	37
Communication with Those Charged With Governance, Management, or Other Relevant Parties	38
Documentation	39
Application and Other Explanatory Material	
Nature of Accounting Estimates	A1-A7
Key Concepts of This ISA (NZ)	A8-A13
Definitions	A14-A18
Risk Assessment Procedures and Related Activities	A19-A63
Identifying and Assessing the Risks of Material Misstatement	A64-A80
Responses to the Assessed Risks of Material Misstatement	A81-A132
Indicators of Possible Management Bias	A133-A136

ISA (NZ) 540 (Revised)

Overall Evaluation Based on Audit Procedures Performed	A137-A144
Written Representations	A145
Communication with Those Charged With Governance, Management or Other Relevant Parties	A146-A148
Documentation	A149-A152
Appendix: Inherent Risk Factors	
Communication with Those Charged With Governance	

[~~Accompanying Attachment: Conformity Statement to the International Standards on Auditing~~](#)

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

ISA (NZ) 540 (Revised)

History of Amendments

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

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

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 540 (Revised)	October 2018	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for audits of financial statements for periods beginning on or after 15 December 2019.</u>
<u>Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)</u>	February 2020	Effective for audits of financial statements for periods beginning on or after 15 December 2021
<u>Conforming Amendments to International Standards on Auditing (New Zealand) and Related Other Pronouncements from the Quality Management Projects</u>	July 2021	Effective for audits of financial statements for periods beginning on or after 15 December 2022

Table of Amended Paragraphs in ISA (NZ) 540 (Revised)		
Paragraph affected	How affected	By...[date]
<u>1, 4-6, 8, 13, 16, 17, A8, A9, A10, A19, A20, A24, A28, A34, A35, A39, A44, A50-A54, A60, A65, A66, A68, A70, A79, A85, A104, A137, A149,</u> <u>Footnotes 1, 5, 9-14, 33, 34, 36, 39, 41, 46, 48, 49, 56, 64, 65, 72, 73</u>	Amended	<u>Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)</u>
<u>Footnote 43</u>	Amended	<u>Conforming Amendments to International Standards on Auditing (New Zealand) and Related Other Pronouncements from the Quality Management Projects [July 2021]</u>

ISA (NZ) 540 (Revised)

Commencement and ~~a~~Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating to accounting estimates and related disclosures in an audit of financial statements. Specifically, it includes requirements and guidance that refer to, or expand on, how ISA (NZ) 315 (Revised 2019),² ISA (NZ) 330,³ ISA (NZ) 450,⁴ ISA (NZ) 500⁵ and other relevant ISAs (NZ) are to be applied in relation to accounting estimates and related disclosures. It also includes requirements and guidance on the evaluation of misstatements of accounting estimates and related disclosures, and indicators of possible management bias.

Nature of Accounting Estimates

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

Key Concepts of This ISA (NZ)

4. ISA (NZ) 315 (Revised 2019) requires a separate assessment of inherent risk for identified risks of material misstatement at the assertion level.⁶ In the context of ISA (NZ) 540 (Revised), and depending on the nature of a particular accounting estimate, the susceptibility of an assertion to a misstatement that could be material may be subject to or affected by estimation uncertainty, complexity, subjectivity or other inherent risk

² ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

⁴ ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*

⁵ ISA (NZ) 500, *Audit Evidence*

⁶ ISA (NZ) 315 (Revised 2019), paragraph 31

ISA (NZ) 540 (Revised)

factors, and the interrelationship among them. As explained in ISA (NZ) 200,⁷ inherent risk is higher for some assertions and related classes of transactions, account balances and disclosures than for others. Accordingly, the assessment of inherent risk depends on the degree to which the inherent risk factors affect the likelihood or magnitude of misstatement, and varies on a scale that is referred to as the spectrum of inherent risk. (Ref: Para. A8–A9, A65–A66, Appendix 1)

5. This ISA (NZ) refers to relevant requirements in ISA (NZ) 315 (Revised 2019) and ISA (NZ) 330, and provides related guidance, to emphasise the importance of the auditor's decisions about controls relating to accounting estimates, including decisions about whether:
 - There are controls required to be identified by ISA (NZ) 315 (Revised 2019), for which the auditor is required to evaluate their design and determine whether they have been implemented.
 - To test the operating effectiveness of controls.
6. ISA (NZ) 315 (Revised 2019) also requires a separate assessment of control risk when assessing the risks of material misstatement at the assertion level. In assessing control risk, the auditor takes into account whether the auditor's further audit procedures contemplate planned reliance on the operating effectiveness of controls. If the auditor does not plan to test the operating effectiveness of controls, or does not intend to rely on the operating effectiveness of controls, the auditor's assessment of control risk is such that the assessment of the risk of material misstatement is the same as the assessment of inherent risk (Ref: Para. A10)
7. This ISA (NZ) emphasises that the auditor's further audit procedures (including, where appropriate, tests of controls) need to be responsive to the reasons for the assessed risks of material misstatement at the assertion level, taking into account the effect of one or more inherent risk factors and the auditor's assessment of control risk.
8. The exercise of professional scepticism in relation to accounting estimates is affected by the auditor's consideration of inherent risk factors, and its importance increases when accounting estimates are subject to a greater degree of estimation uncertainty or are affected to a greater degree by complexity, subjectivity or other inherent risk factors. Similarly, the exercise of professional scepticism is important when there is greater susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk. (Ref: Para. A11)
9. This ISA (NZ) requires the auditor to evaluate, based on the audit procedures performed and the audit evidence obtained, whether the accounting estimates and related disclosures are reasonable⁸ in the context of the applicable financial reporting framework, or are misstated. For purposes of this ISA (NZ), reasonable in the context of the applicable financial reporting framework means that the relevant requirements of the applicable financial reporting framework have been applied appropriately, including those that address: (Ref: Para. A12–A13, A139–A144)

⁷ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A469

⁸ See also ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 13(c)

ISA (NZ) 540 (Revised)

- The making of the accounting estimate, including the selection of the method, assumptions and data in view of the nature of the accounting estimate and the facts and circumstances of the entity;
- The selection of management's point estimate; and
- The disclosures about the accounting estimate, including disclosures about how the accounting estimate was developed and that explain the nature, extent, and sources of estimation uncertainty.

Effective Date

10. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 15 December 2019. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ10.1 This ~~ISA (NZ) Standard~~ supersedes-repeals ISA (NZ) 540 (Revised), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* issued in November 2018.

Objective

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

Definitions

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

Requirements**Risk Assessment Procedures and Related Activities**

13. When obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, as required by

ISA (NZ) 540 (Revised)

ISA (NZ) 315 (Revised 2019),⁹ the auditor shall obtain an understanding of the following matters related to the entity's accounting estimates. The auditor's procedures to obtain the understanding shall be performed to the extent necessary to obtain audit evidence that provides an appropriate basis for the identification and assessment of risks of material misstatement at the financial statement and assertion levels. (Ref: Para. A19–A22)

Obtaining an Understanding of the Entity and Its Environment and the Applicable Financial Reporting Framework

- (a) The entity's transactions and other events or conditions that may give rise to the need for, or changes in, accounting estimates to be recognised or disclosed in the financial statements. (Ref: Para. A23)
- (b) The requirements of the applicable financial reporting framework related to accounting estimates (including the recognition criteria, measurement bases, and the related presentation and disclosure requirements); and how they apply in the context of the nature and circumstances of the entity and its environment, including how the inherent risk factors affect susceptibility to misstatement of assertions. (Ref: Para. A24–A25)
- (c) Regulatory factors relevant to the entity's accounting estimates, including, when applicable, regulatory frameworks related to prudential supervision. (Ref: Para. A26)
- (d) The nature of the accounting estimates and related disclosures that the auditor expects to be included in the entity's financial statements, based on the auditor's understanding of the matters in 13(a)–(c) above. (Ref: Para. A27)

Obtaining an Understanding of the Entity's System of Internal Control

- (e) The nature and extent of oversight and governance that the entity has in place over management's financial reporting process relevant to accounting estimates. (Ref: Para. A28–A30).
- (f) How management identifies the need for, and applies, specialised skills or knowledge related to accounting estimates, including with respect to the use of a management's expert. (Ref: Para. A31)
- (g) How the entity's risk assessment process identifies and addresses risks relating to accounting estimates. (Ref: Para. A32–A33)
- (h) The entity's information system as it relates to accounting estimates, including:
 - (i) How information relating to accounting estimates and related disclosures for significant classes of transactions, account balances or disclosures flows through the entity's information system; and (Ref: Para. A34–A35)
 - (ii) For such accounting estimates and related disclosures, how management:
 - a. Identifies the relevant methods, assumptions or sources of data, and the need for changes in them, that are appropriate in the context of the applicable financial reporting framework, including how management: (Ref: Para. A36–A37)
 - i. Selects or designs, and applies, the methods used, including the use of models; (Ref: Para. A38–A39)

⁹ ISA (NZ) 315 (Revised 2019), paragraphs 11, 13–14, 18, 21–26, and 20–21

ISA (NZ) 540 (Revised)

- ii. Selects the assumptions to be used, including consideration of alternatives, and identifies significant assumptions; (Ref: Para. A40–A43); and
 - iii. Selects the data to be used; (Ref: Para. A44)
 - b. Understands the degree of estimation uncertainty, including through considering the range of possible measurement outcomes; and (Ref: Para. A45)
 - c. Addresses the estimation uncertainty, including selecting a point estimate and related disclosures for inclusion in the financial statements. (Ref: Para. A46–A49)
 - (i) Identified controls in the control activities component¹⁰ over management's process for making accounting estimates as described in paragraph 13(h)(ii). (Ref: Para. A50–A54)
 - (j) How management reviews the outcome(s) of previous accounting estimates and responds to the results of that review.
14. The auditor shall review the outcome of previous accounting estimates, or, where applicable, their subsequent re-estimation to assist in identifying and assessing the risks of material misstatement in the current period. The auditor shall take into account the characteristics of the accounting estimates in determining the nature and extent of that review. The review is not intended to call into question judgements about previous period accounting estimates that were appropriate based on the information available at the time they were made. (Ref: Para. A55–A60)
15. With respect to accounting estimates, the auditor shall determine whether the engagement team requires specialised skills or knowledge to perform the risk assessment procedures, to identify and assess the risks of material misstatement, to design and perform audit procedures to respond to those risks, or to evaluate the audit evidence obtained. (Ref: Para. A61–A63)

Identifying and Assessing the Risks of Material Misstatement

16. In identifying and assessing the risks of material misstatement relating to an accounting estimate and related disclosures at the assertion level, including separately assessing inherent risk and control risk at the assertion level, as required by ISA (NZ) 315 (Revised 2019),¹¹ the auditor shall take the following into account in identifying the risks of material misstatement and in assessing inherent risk: (Ref: Para. A64–A71)
- (a) The degree to which the accounting estimate is subject to estimation uncertainty; and (Ref: Para. A72–A75)
 - (b) The degree to which the following are affected by complexity, subjectivity, or other inherent risk factors: (Ref: Para. A76–A79)
 - (i) The selection and application of the method, assumptions and data in making the accounting estimate; or
 - (ii) The selection of management's point estimate and related disclosures for inclusion in the financial statements.

¹⁰ ISA (NZ) 315 (Revised 2019), paragraphs 26(a)(i)–(iv)

¹¹ ISA (NZ) 315 (Revised), paragraph 31 and 34

ISA (NZ) 540 (Revised)

17. The auditor shall determine whether any of the risks of material misstatement identified and assessed in accordance with paragraph 16 are, in the auditor's judgement, a significant risk.¹² If the auditor has determined that a significant risk exists, the auditor shall identify controls that that risk¹³ and evaluate whether such controls have been designed effectively, and determine whether they have been implemented.¹⁴ (Ref: Para. A80)

Responses to the Assessed Risks of Material Misstatement

18. As required by ISA (NZ) 330,¹⁵ the auditor's further audit procedures shall be responsive to the assessed risks of material misstatement at the assertion level,¹⁶ considering the reasons for the assessment given to those risks. The auditor's further audit procedures shall include one or more of the following approaches:

- (a) Obtaining audit evidence from events occurring up to the date of the auditor's report (see paragraph 21);
- (b) Testing how management made the accounting estimate (see paragraphs 22–27); or
- (c) Developing an auditor's point estimate or range (see paragraphs 28–29).

The auditor's further audit procedures shall take into account that the higher the assessed risk of material misstatement, the more persuasive the audit evidence needs to be.¹⁷ The auditor shall design and perform further audit procedures in a manner that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory. (Ref: Para. A81–A84)

19. As required by ISA (NZ) 330,¹⁸ the auditor shall design and perform tests to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls, if:

- (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively, or
- (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.

In relation to accounting estimates, the auditor's tests of such controls shall be responsive to the reasons for the assessment given to the risks of material misstatement. In designing and performing tests of controls, the auditor shall obtain more persuasive audit evidence the greater the reliance the auditor places on the effectiveness of a control.¹⁹ (Ref: Para. A85–A89)

20. For a significant risk relating to an accounting estimate, the auditor's further audit procedures shall include tests of controls in the current period if the auditor plans to rely

¹² ISA (NZ) 315 (Revised 2019), paragraph 32

¹³ ISA (NZ) 315 (Revised 2019), paragraph 26 (a)(i)

¹⁴ ISA (NZ) 315 (Revised 2019), paragraph 26(a)

¹⁵ ISA (NZ) 330, paragraphs 6–15 and 18

¹⁶ ISA (NZ) 330, paragraphs 6–7 and 21

¹⁷ ISA (NZ) 330, paragraph 7(b)

¹⁸ ISA (NZ) 330, paragraph 8

¹⁹ ISA (NZ) 330, paragraph 9

ISA (NZ) 540 (Revised)

on those controls. When the approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details.²⁰ (Ref: Para. A90)

Obtaining Audit Evidence from Events Occurring up to the Date of the Auditor's Report

21. When the auditor's further audit procedures include obtaining audit evidence from events occurring up to the date of the auditor's report, the auditor shall evaluate whether such audit evidence is sufficient and appropriate to address the risks of material misstatement relating to the accounting estimate, taking into account that changes in circumstances and other relevant conditions between the event and the measurement date may affect the relevance of such audit evidence in the context of the applicable financial reporting framework. (Ref: Para. A91–A93)

Testing How Management Made the Accounting Estimate

22. When testing how management made the accounting estimate, the auditor's further audit procedures shall include procedures, designed and performed in accordance with paragraphs 23–26, to obtain sufficient appropriate audit evidence regarding the risks of material misstatement relating to: (Ref: Para. A94)
- (a) The selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate; and
 - (b) How management selected the point estimate and developed related disclosures about estimation uncertainty.

Methods

23. In applying the requirements of paragraph 22, with respect to methods, the auditor's further audit procedures shall address:
- (a) Whether the method selected is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from the method used in prior periods are appropriate; (Ref: Para. A95, A97)
 - (b) Whether judgements made in selecting the method give rise to indicators of possible management bias; (Ref: Para. A96)
 - (c) Whether the calculations are applied in accordance with the method and are mathematically accurate;
 - (d) When management's application of the method involves complex modelling, whether judgements have been applied consistently and whether, when applicable: (Ref: Para. A98–A100)
 - (i) The design of the model meets the measurement objective of the applicable financial reporting framework, is appropriate in the circumstances, and, if applicable, changes from the prior period's model are appropriate in the circumstances; and
 - (ii) Adjustments to the output of the model are consistent with the measurement objective of the applicable financial reporting framework and are appropriate in the circumstances; and
 - (e) Whether the integrity of the significant assumptions and the data has been

²⁰ ISA (NZ) 330, paragraphs 15 and 21

ISA (NZ) 540 (Revised)

maintained in applying the method. (Ref: Para. A101)

Significant Assumptions

24. In applying the requirements of paragraph 22, with respect to significant assumptions, the auditor's further audit procedures shall address:
 - (a) Whether the significant assumptions are appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate; (Ref: Para. A95, A102–A103)
 - (b) Whether judgements made in selecting the significant assumptions give rise to indicators of possible management bias; (Ref: Para. A96)
 - (c) Whether the significant assumptions are consistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities, based on the auditor's knowledge obtained in the audit; and (Ref: Para. A104)
 - (d) When applicable, whether management has the intent to carry out specific courses of action and has the ability to do so. (Ref: Para. A105)

Data

25. In applying the requirements of paragraph 22, with respect to data, the auditor's further audit procedures shall address:
 - (a) Whether the data is appropriate in the context of the applicable financial reporting framework, and, if applicable, changes from prior periods are appropriate (Ref: Para. A95, A106);
 - (b) Whether judgements made in selecting the data give rise to indicators of possible management bias; (Ref: Para. A96)
 - (c) Whether the data is relevant and reliable in the circumstances; and (Ref: Para. A107)
 - (d) Whether the data has been appropriately understood or interpreted by management, including with respect to contractual terms. (Ref: Para. A108)

Management's Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty

26. In applying the requirements of paragraph 22, the auditor's further audit procedures shall address whether, in the context of the applicable financial reporting framework, management has taken appropriate steps to:
 - (a) Understand estimation uncertainty; and (Ref: Para. A109)
 - (b) Address estimation uncertainty by selecting an appropriate point estimate and by developing related disclosures about estimation uncertainty. (Ref: Para. A110–A114)
27. When, in the auditor's judgement based on the audit evidence obtained, management has not taken appropriate steps to understand or address estimation uncertainty, the auditor shall: (Ref: Para. A115–A117)
 - (a) Request management to perform additional procedures to understand estimation uncertainty or to address it by reconsidering the selection of management's point

ISA (NZ) 540 (Revised)

estimate or considering providing additional disclosures relating to the estimation uncertainty, and evaluate management's response(s) in accordance with paragraph 26;

- (b) If the auditor determines that management's response to the auditor's request does not sufficiently address estimation uncertainty, to the extent practicable, develop an auditor's point estimate or range in accordance with paragraphs 28–29; and
- (c) Evaluate whether a deficiency in internal control exists and, if so, communicate in accordance with ISA (NZ) 265.²¹

Developing an Auditor's Point Estimate or Range

- 28. When the auditor develops a point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty, including when required by paragraph 27(b), the auditor's further audit procedures shall include procedures to evaluate whether the methods, assumptions or data used are appropriate in the context of the applicable financial reporting framework. Regardless of whether the auditor uses management's or the auditor's own methods, assumptions or data, these further audit procedures shall be designed and performed to address the matters in paragraphs 23–25. (Ref: Para. A118–A123)
- 29. If the auditor develops an auditor's range, the auditor shall:
 - (a) Determine that the range includes only amounts that are supported by sufficient appropriate audit evidence and have been evaluated by the auditor to be reasonable in the context of the measurement objectives and other requirements of the applicable financial reporting framework; and (Ref: Para. A124–A125)
 - (b) Design and perform further audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement relating to the disclosures in the financial statements that describe the estimation uncertainty.

Other Considerations Relating to Audit Evidence

- 30. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor shall comply with the relevant requirements in ISA (NZ) 500.

When using the work of a management's expert, the requirements in paragraphs 21–29 of this ISA (NZ) may assist the auditor in evaluating the appropriateness of the expert's work as audit evidence for a relevant assertion in accordance with paragraph 8(c) of ISA (NZ) 500. In evaluating the work of the management's expert, the nature, timing and extent of the further audit procedures are affected by the auditor's evaluation of the expert's competence, capabilities and objectivity, the auditor's understanding of the nature of the work performed by the expert, and the auditor's familiarity with the expert's field of expertise. (Ref: Para. A126–A132)

Disclosures Related to Accounting Estimates

- 31. The auditor shall design and perform further audit procedures to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level for disclosures related to an accounting estimate, other than those related to estimation uncertainty addressed in paragraphs 26(b) and 29(b).

²¹ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Indicators of Possible Management Bias

32. The auditor shall evaluate whether judgements and decisions made by management in making the accounting estimates included in the financial statements, even if they are individually reasonable, are indicators of possible management bias. When indicators of possible management bias are identified, the auditor shall evaluate the implications for the audit. Where there is intention to mislead, management bias is fraudulent in nature. (Ref: Para. A133–A136)

Overall Evaluation Based on Audit Procedures Performed

33. In applying ISA (NZ) 330 to accounting estimates,²² the auditor shall evaluate, based on the audit procedures performed and audit evidence obtained, whether: (Ref: Para A137–A138)
- (a) The assessments of the risks of material misstatement at the assertion level remain appropriate, including when indicators of possible management bias have been identified;
 - (b) Management's decisions relating to the recognition, measurement, presentation and disclosure of these accounting estimates in the financial statements are in accordance with the applicable financial reporting framework; and
 - (c) Sufficient appropriate audit evidence has been obtained.
34. In making the evaluation required by paragraph 33(c), the auditor shall take into account all relevant audit evidence obtained, whether corroborative or contradictory.²³ If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with ISA (NZ) 705 (Revised).²⁴

Determining Whether the Accounting Estimates are Reasonable or Misstated

35. The auditor shall determine whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated. ISA (NZ) 450²⁵ provides guidance on how the auditor may distinguish misstatements (whether factual, judgemental, or projected) for the auditor's evaluation of the effect of uncorrected misstatements on the financial statements. (Ref: Para. A12–A13, A139–A144)
36. In relation to accounting estimates, the auditor shall evaluate:
- (a) In the case of a fair presentation framework, whether management has included disclosures, beyond those specifically required by the framework, that are necessary to achieve the fair presentation of the financial statements as a whole;²⁶ or
 - (b) In the case of a compliance framework, whether the disclosures are those that are necessary for the financial statements not to be misleading.²⁷

²² ISA (NZ) 330, paragraphs 25–26

²³ ISA (NZ) 500, paragraph 11

²⁴ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

²⁵ ISA (NZ) 450, paragraph A6

²⁶ See also ISA (NZ) 700 (Revised), paragraph 14

²⁷ See also ISA (NZ) 700 (Revised), paragraph 19

ISA (NZ) 540 (Revised)

Written Representations

37. The auditor shall request written representations from management²⁸ and, when appropriate, those charged with governance about whether the methods, significant assumptions and the data used in making the accounting estimates and the related disclosures are appropriate to achieve recognition, measurement or disclosure that is in accordance with the applicable financial reporting framework. The auditor shall also consider the need to obtain representations about specific accounting estimates, including in relation to the methods, assumptions, or data used. (Ref: Para. A145)

Communication with Those Charged With Governance, Management, or Other Relevant Parties

38. In applying ISA (NZ) 260 (Revised)²⁹ and ISA (NZ) 265,³⁰ the auditor is required to communicate with those charged with governance or management about certain matters, including significant qualitative aspects of the entity's accounting practices and significant deficiencies in internal control, respectively. In doing so, the auditor shall consider the matters, if any, to communicate regarding accounting estimates and take into account whether the reasons given to the risks of material misstatement relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors in making accounting estimates and related disclosures. In addition, in certain circumstances, the auditor is required by law or regulation to communicate about certain matters with other relevant parties, such as regulators or prudential supervisors. (Ref: Para. A146–A148)

Documentation

39. The auditor shall include in the audit documentation:³¹ (Ref: Para. A149–A152)
- (a) Key elements of the auditor's understanding of the entity and its environment, including the entity's internal control related to the entity's accounting estimates;
 - (b) The linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level,³² taking into account the reasons (whether related to inherent risk or control risk) given to the assessment of those risks;
 - (c) The auditor's response(s) when management has not taken appropriate steps to understand and address estimation uncertainty;
 - (d) Indicators of possible management bias related to accounting estimates, if any, and the auditor's evaluation of the implications for the audit, as required by paragraph 32; and
 - (e) Significant judgements relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.

* * *

²⁸ ISA (NZ) 580, *Written Representations*

²⁹ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16(a)

³⁰ ISA (NZ) 265, paragraph 9

³¹ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11, A6, NZA7.1 and A10

³² ISA (NZ) 330, paragraph 28(b)

Application and Other Explanatory Material

Nature of Accounting Estimates (Ref: Para. 2)

Examples of Accounting Estimates

A1. Examples of accounting estimates related to classes of transactions, account balances and disclosures include:

- Inventory obsolescence.
- Depreciation of property and equipment.
- Valuation of infrastructure assets.
- Valuation of financial instruments.
- Outcome of pending litigation.
- Provision for expected credit losses.
- Valuation of insurance contract liabilities.
- Warranty obligations.
- Employee retirement benefits liabilities.
- Share-based payments.
- Fair value of assets or liabilities acquired in a business combination, including the determination of goodwill and intangible assets.
- Impairment of long-lived assets or property or equipment held for disposal.
- Non-monetary exchanges of assets or liabilities between independent parties.
- Revenue recognised for long-term contracts.

Methods

A2. A method is a measurement technique used by management to make an accounting estimate in accordance with the required measurement basis. For example, one recognised method used to make accounting estimates relating to share-based payment transactions is to determine a theoretical option call price using the Black Scholes option pricing formula. A method is applied using a computational tool or process, sometimes referred to as a model, and involves applying assumptions and data and taking into account a set of relationships between them.

Assumptions and Data

- A3. Assumptions involve judgements based on available information about matters such as the choice of an interest rate, a discount rate, or judgements about future conditions or events. An assumption may be selected by management from a range of appropriate alternatives. Assumptions that may be made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate.
- A4. For purposes of this ISA (NZ), data is information that can be obtained through direct observation or from a party external to the entity. Information obtained by applying analytical or interpretive techniques to data is referred to as derived data when such

ISA (NZ) 540 (Revised)

techniques have a well-established theoretical basis and therefore less need for management judgement. Otherwise, such information is an assumption.

A5. Examples of data include:

- Prices agreed in market transactions;
- Operating times or quantities of output from a production machine;
- Historical prices or other terms included in contracts, such as a contracted interest rate, a payment schedule, and term included in a loan agreement;
- Forward-looking information such as economic or earnings forecasts obtained from an external information source, or
- A future interest rate determined using interpolation techniques from forward interest rates (derived data).

A6. Data can come from a wide range of sources. For example, data can be:

- Generated within the organisation or externally;
- Obtained from a system that is either within or outside the general or subsidiary ledgers;
- Observable in contracts; or
- Observable in legislative or regulatory pronouncements.

Scalability (Ref: Para. 3)

A7. Examples of paragraphs that include guidance on how the requirements of this ISA (NZ) can be scaled include paragraphs A20–A22, A63, A67, and A84.

Key Concepts of This ISA (NZ)

Inherent Risk Factors (Ref: Para. 4)

A8. Inherent risk factors are characteristics of events or conditions that affect susceptibility to misstatement whether due to fraud or error, of an assertion about a class of transactions, account balance or disclosures, before consideration of controls.³³ Appendix 1 further explains the nature of these inherent risk factors, and their inter-relationships, in the context of making accounting estimates and their presentation in the financial statements.

A9. When assessing the risks of material misstatement at the assertion level³⁴, in addition to estimation uncertainty, complexity, and subjectivity, the auditor also takes into account the degree to which inherent risk factors included in ISA (NZ) 315 (Revised 2019), (other than estimation uncertainty, complexity, and subjectivity), affect susceptibility of assertions to misstatement about the accounting estimate. Such additional inherent risk factors include:

- Change in the nature or circumstances of the relevant financial statement items, or requirements of the applicable financial reporting framework which may give rise to the need for changes in the method, assumptions or data used to make the accounting estimate.

³³ ISA (NZ) 315 (Revised 2019), paragraph 12(f)

³⁴ ISA (NZ) 315 (Revised 2019), paragraph 31

ISA (NZ) 540 (Revised)

- Susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk, in making the accounting estimate.
- Uncertainty, other than estimation uncertainty.

Control Risk (Ref: Para. 6)

A10. In assessing control risk at the assertion level in accordance with ISA (NZ) 315 (Revised 2019), the auditor takes into account whether the auditor plans to test the operating effectiveness of controls. When the auditor is considering whether to test the operating effectiveness of controls, the auditor's evaluation that controls are effectively designed and have been implemented supports an expectation by the auditor, about the operating effectiveness of the controls in establishing the plan to test them.

Professional Scepticism (Ref: Para. 8)

A11. Paragraphs A60, A95, A96, A137 and A139 are examples of paragraphs that describe ways in which the auditor can exercise professional scepticism. Paragraph A152 provides guidance on ways in which the auditor's exercise of professional scepticism may be documented, and includes examples of specific paragraphs in this ISA for which documentation may provide evidence of the exercise of professional scepticism.

Concept of "Reasonable" (Ref: Para. 9, 35)

A12. Other considerations that may be relevant to the auditor's consideration of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework include whether:

- The data and assumptions used in making the accounting estimate are consistent with each other and with those used in other accounting estimates or areas of the entity's business activities; and
- The accounting estimate takes into account appropriate information as required by the applicable financial reporting framework.

A13. The term "applied appropriately" as used in paragraph 9 means in a manner that not only complies with the requirements of the applicable financial reporting framework but, in doing so, reflects judgements that are consistent with the objective of the measurement basis in that framework.

Definitions*Accounting Estimate (Ref: Para. 12(a))*

A14. Accounting estimates are monetary amounts that may be related to classes of transactions or account balances recognised or disclosed in the financial statements. Accounting estimates also include monetary amounts included in disclosures or used to make judgements about recognition or disclosure relating to a class of transactions or account balance.

Auditor's Point Estimate or Auditor's Range (Ref: Para. 12(b))

A15. An auditor's point estimate or range may be used to evaluate an accounting estimate directly (for example, an impairment provision or the fair value of different types of financial instruments), or indirectly (for example, an amount to be used as a significant assumption for an accounting estimate). A similar approach may be taken by the auditor

ISA (NZ) 540 (Revised)

in developing an amount or range of amounts in evaluating a non-monetary item of data or an assumption (for example, an estimated useful life of an asset).

Estimation Uncertainty (Ref: Para. 12(c))

A16. Not all accounting estimates are subject to a high degree of estimation uncertainty. For example, some financial statement items may have an active and open market that provides readily available and reliable information on the prices at which actual exchanges occur. However, estimation uncertainty may exist even when the valuation method and data are well defined. For example, valuation of securities quoted on an active and open market at the listed market price may require adjustment if the holding is significant or is subject to restrictions in marketability. In addition, general economic circumstances prevailing at the time, for example, illiquidity in a particular market, may impact estimation uncertainty.

Management Bias (Ref: Para. 12(d))

A17. Financial reporting frameworks often call for neutrality, that is, freedom from bias. Estimation uncertainty gives rise to subjectivity in making an accounting estimate. The presence of subjectivity gives rise to the need for judgement by management and the susceptibility to unintentional or intentional management bias (for example, as a result of motivation to achieve a desired profit target or capital ratio). The susceptibility of an accounting estimate to management bias increases with the extent to which there is subjectivity in making the accounting estimate.

Outcome of an Accounting Estimate (Ref: Para. 12(f))

A18. Some accounting estimates, by their nature, do not have an outcome that is relevant for the auditor's work performed in accordance with this ISA (NZ). For example, an accounting estimate may be based on perceptions of market participants at a point in time. Accordingly, the price realised when an asset is sold or a liability is transferred may differ from the related accounting estimate made at the reporting date because, with the passage of time, the market participants' perceptions of value have changed.

Risk Assessment Procedures and Related Activities*Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework, and the Entity's System of Internal Control (Ref: Para. 13)*

A19. Paragraphs 19–27 of ISA (NZ) 315 (Revised 2019) require the auditor to obtain an understanding of certain matters about the entity and its environment, the applicable financial reporting framework and the entity's system of internal control. The requirements in paragraph 13 of this ISA (NZ) relate more specifically to accounting estimates and build on the broader requirements in ISA (NZ) 315 (Revised 2019).

Scalability

A20. The nature, timing, and extent of the auditor's procedures to obtain the understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, related to the entity's accounting estimates, may depend, to a greater or lesser degree, on the extent to which the individual matter(s) apply in the circumstances. For example, the entity may have few transactions or other events and conditions that give rise to the need for accounting estimates, the applicable financial reporting requirements may be simple to apply, and there may be no relevant regulatory

ISA (NZ) 540 (Revised)

factors. Further, the accounting estimates may not require significant judgements, and the process for making the accounting estimates may be less complex. In these circumstances, the accounting estimates may be subject to or affected by estimation uncertainty, complexity, subjectivity, or other inherent risk factors to a lesser degree and there may be fewer identified controls in the control activities component. If so, the auditor's risk identification and assessment procedures are likely to be less extensive and may be obtained primarily through enquiries of management with appropriate responsibilities for the financial statements such as simple walk-throughs of management's process for making the accounting estimate (including when evaluating whether identified controls in that process are designed effectively and when determining whether the control has been implemented).

- A21. By contrast, the accounting estimates may require significant judgements by management, and the process for making the accounting estimates may be complex and involve the use of complex models. In addition, the entity may have a more sophisticated information system, and more extensive controls over accounting estimates. In these circumstances, the accounting estimates may be subject to or affected by estimation uncertainty, subjectivity, complexity or other inherent risk factors to a greater degree. If so, the nature or timing of the auditor's risk assessment procedures are likely to be different, or be more extensive, than in the circumstances in paragraph A20.
- A22. The following considerations may be relevant for entities with only simple businesses, which may include many smaller entities:
- Processes relevant to accounting estimates may be uncomplicated because the business activities are simple or the required estimates may have a lesser degree of estimation uncertainty.
 - Accounting estimates may be generated outside of the general and subsidiary ledgers, controls over their development may be limited, and an owner-manager may have significant influence over their determination. The owner-manager's role in making the accounting estimates may need to be taken into account by the auditor both when identifying the risks of material misstatement and when considering the risk of management bias.

The Entity and Its Environment

The entity's transactions and other events or conditions (Ref: Para. 13(a))

- A23. Changes in circumstances that may give rise to the need for, or changes in, accounting estimates may include, for example, whether:
- The entity has engaged in new types of transactions;
 - Terms of transactions have changed; or
 - New events or conditions have occurred.

The requirements of the applicable financial reporting framework (Ref: Para. 13(b))

- A24. Obtaining an understanding of the requirements of the applicable financial reporting framework provides the auditor with a basis for discussion with management and, where applicable, those charged with governance about how management has applied the requirements of the applicable financial reporting framework relevant to the accounting estimates, and about the auditor's determination of whether they have been applied appropriately. This understanding also may assist the auditor in communicating with

ISA (NZ) 540 (Revised)

those charged with governance when the auditor considers a significant accounting practice that is acceptable under the applicable financial reporting framework, not to be the most appropriate in the circumstances of the entity.³⁵

A25. In obtaining this understanding, the auditor may seek to understand whether:

- The applicable financial reporting framework:
 - Prescribes certain criteria for the recognition, or methods for the measurement of accounting estimates;
 - Specifies certain criteria that permit or require measurement at a fair value, for example, by referring to management's intentions to carry out certain courses of action with respect to an asset or liability; or
 - Specifies required or suggested disclosures, including disclosures concerning judgements, assumptions, or other sources of estimation uncertainty relating to accounting estimates; and
- Changes in the applicable financial reporting framework require changes to the entity's accounting policies relating to accounting estimates.

Regulatory factors (Ref: Para. 13(c))

A26. Obtaining an understanding of regulatory factors, if any, that are relevant to accounting estimates may assist the auditor in identifying applicable regulatory frameworks (for example, regulatory frameworks established by prudential supervisors in the banking or insurance industries) and in determining whether such regulatory framework(s):

- Addresses conditions for the recognition, or methods for the measurement, of accounting estimates, or provides related guidance thereon;
- Specifies, or provides guidance about, disclosures in addition to the requirements of the applicable financial reporting framework;
- Provides an indication of areas for which there may be a potential for management bias to meet regulatory requirements; or
- Contains requirements for regulatory purposes that are not consistent with requirements of the applicable financial reporting framework, which may indicate potential risks of material misstatement. For example, some regulators may seek to influence minimum levels for expected credit loss provisions that exceed those required by the applicable financial reporting framework.

The nature of the accounting estimates and related disclosures that the auditor expects to be included in the financial statements (Ref: Para. 13(d))

A27. Obtaining an understanding of the nature of accounting estimates and related disclosures that the auditor expects to be included in the entity's financial statements assists the auditor in understanding the measurement basis of such accounting estimates and the nature and extent of disclosures that may be relevant. Such an understanding provides the auditor with a basis for discussion with management about how management makes the accounting estimates.

The Entity's System of Internal Control Relevant to the Audit

The nature and extent of oversight and governance (Ref: Para. 13(e))

³⁵ ISA (NZ) 260 (Revised), paragraph 16(a)

ISA (NZ) 540 (Revised)

A28. In applying ISA (NZ) 315 (Revised 2019),³⁶ the auditor's understanding of the nature and extent of oversight and governance that the entity has in place over management's process for making accounting estimates may be important to the auditor's required evaluation of whether:

- Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behaviour;
- The control environment provides an appropriate foundation for the other components of the system of internal control considering the nature and size of the entity; and
- Control deficiencies identified in the control environment undermine the other components of the system of internal control.

A29. The auditor may obtain an understanding of whether those charged with governance:

- Have the skills or knowledge to understand the characteristics of a particular method or model to make accounting estimates, or the risks related to the accounting estimate, for example, risks related to the method or information technology used in making the accounting estimates;
- Have the skills and knowledge to understand whether management made the accounting estimates in accordance with the applicable financial reporting framework;
- Are independent from management, have the information required to evaluate on a timely basis how management made the accounting estimates, and the authority to call into question management's actions when those actions appear to be inadequate or inappropriate;
- Oversee management's process for making the accounting estimates, including the use of models; or
- Oversee the monitoring activities undertaken by management. This may include supervision and review procedures designed to detect and correct any deficiencies in the design or operating effectiveness of controls over the accounting estimates.

A30. Obtaining an understanding of the oversight by those charged with governance may be important when there are accounting estimates that:

- Require significant judgement by management to address subjectivity;
- Have high estimation uncertainty;
- Are complex to make, for example, because of the extensive use of information technology, large volumes of data or the use of multiple data sources or assumptions with complex-interrelationships;
- Had, or ought to have had, a change in the method, assumptions or data compared to previous periods; or
- Involve significant assumptions.

Management's application of specialised skills or knowledge, including the use of management's experts (Ref: Para. 13(f))

³⁶ ISA (NZ) 315 (Revised 2019), paragraph 21(a).

ISA (NZ) 540 (Revised)

A31. The auditor may consider whether the following circumstances increase the likelihood that management needs to engage an expert:³⁷

- The specialised nature of the matter requiring estimation, for example, the accounting estimate may involve measurement of mineral or hydrocarbon reserves in extractive industries or the evaluation of the likely outcome of applying complex contractual terms.
- The complex nature of the models required to apply the relevant requirements of the applicable financial reporting framework, as may be the case in certain measurements, such as level 3 fair values.³⁸
- The unusual or infrequent nature of the condition, transaction or event requiring an accounting estimate.

The entity's risk assessment process (Ref: Para. 13(g))

A32. Understanding how the entity's risk assessment process identifies and addresses risks relating to accounting estimates may assist the auditor in considering changes in:

- The requirements of the applicable financial reporting framework related to the accounting estimates;
- The availability or nature of data sources that are relevant to making the accounting estimates or that may affect the reliability of the data used;
- The entity's information system or IT environment; and
- Key personnel.

A33. Matters that the auditor may consider in obtaining an understanding of how management identified and addresses the susceptibility to misstatement due to management bias or fraud in making accounting estimates, include whether, and if so how, management:

- Pays particular attention to selecting or applying the methods, assumptions and data used in making accounting estimates.
- Monitors key performance indicators that may indicate unexpected or inconsistent performance compared with historical or budgeted performance or with other known factors.
- Identifies financial or other incentives that may be a motivation for bias.
- Monitors the need for changes in the methods, significant assumptions or the data used in making accounting estimates.
- Establishes appropriate oversight and review of models used in making accounting estimates.
- Requires documentation of the rationale for, or an independent review of, significant judgements made in making accounting estimates.

The entity's information system relating to accounting estimates (Ref: Para. 13(h)(i))

³⁷ ISA 500, paragraph 8

³⁸ See, for example, New Zealand Equivalent to International Financial Reporting Standard (NZ IFRS) 13 *Fair Value Measurement*.

ISA (NZ) 540 (Revised)

A34. The significant classes of transactions, events and conditions within the scope of paragraph 13(h) are the same as the significant classes of transactions, events and conditions relating to accounting estimates and related disclosures that are subject to paragraphs 25(a) and (d) of ISA (NZ) 315 (Revised 2019). In obtaining the understanding of the entity's information system as it relates to accounting estimates, the auditor may consider:

- Whether the accounting estimates arise from the recording of routine and recurring transactions or whether they arise from non-recurring or unusual transactions.
- How the information system addresses the completeness of accounting estimates and related disclosures, in particular for accounting estimates related to liabilities.

A35. During the audit, the auditor may identify classes of transactions, events or conditions that give rise to the need for accounting estimates and related disclosures that management failed to identify. ISA (NZ) 315 (Revised 2019) deals with circumstances where the auditor identifies risks of material misstatement that management failed to identify, including considering the implications for the auditor's evaluation of the entity's risk assessment process.³⁹

Management's Identification of the Relevant Methods, Assumptions and Sources of Data (Ref:

Para. 13(h)(ii)(a)

A36. If management has changed the method for making an accounting estimate, considerations may include whether the new method is, for example, more appropriate, is itself a response to changes in the environment or circumstances affecting the entity, or to changes in the requirements of the applicable financial reporting framework or regulatory environment, or whether management has another valid reason.

A37. If management has not changed the method for making an accounting estimate, considerations may include whether the continued use of the previous methods, assumptions and data is appropriate in view of the current environment or circumstances.

Methods (Ref: Para. 13(h)(ii)(a)(i))

A38. The applicable financial reporting framework may prescribe the method to be used in making an accounting estimate. In many cases, however, the applicable financial reporting framework does not prescribe a single method, or the required measurement basis prescribes, or allows, the use of alternative methods.

Models

A39. Management may design and implement specific controls around models used for making accounting estimates, whether management's own model or an external model. When the model itself has an increased level of complexity or subjectivity, such as an expected credit loss model or a fair value model using level 3 inputs, controls that address such complexity or subjectivity may be more likely to be identified controls in accordance with ISA (NZ) 315 (Revised 2019). When complexity in relation to models is present, controls over data integrity are also more likely to be relevant to the audit. Factors that may be appropriate for the auditor to consider in obtaining an understanding of the model and related identified controls include the following:

- How management determines the relevance and accuracy of the model;

³⁹ ISA (NZ) 315 (Revised 2019), paragraph 23.

ISA (NZ) 540 (Revised)

- The validation or back testing of the model, including whether the model is validated prior to use and revalidated at regular intervals to determine whether it remains suitable for its intended use. The entity's validation of the model may include evaluation of:
 - The model's theoretical soundness;
 - The model's mathematical integrity; and
 - The accuracy and completeness of the data and the appropriateness of data and assumptions used in the model.
- How the model is appropriately changed or adjusted on a timely basis for changes in market or other conditions and whether there are appropriate change control policies over the model;
- Whether adjustments, also referred to as overlays in certain industries, are made to the output of the model and whether such adjustments are appropriate in the circumstances in accordance with the requirements of the applicable financial reporting framework. When the adjustments are not appropriate, such adjustments may be indicators of possible management bias; and
- Whether the model is adequately documented, including its intended applications, limitations, key parameters, required data and assumptions, the results of any validation performed on it and the nature of, and basis for, any adjustments made to its output.

Assumptions (Ref: Para. 13(h)(ii)(a)(ii))

A40. Matters that the auditor may consider in obtaining an understanding of how management selected the assumptions used in making the accounting estimates include, for example:

- The basis for management's selection and the documentation supporting the selection of the assumption. The applicable financial reporting framework may provide criteria or guidance to be used in the selection of an assumption.
- How management assesses whether the assumptions are relevant and complete.
- When applicable, how management determines that the assumptions are consistent with each other, with those used in other accounting estimates or areas of the entity's business activities, or with other matters that are:
 - Within the control of management (for example, assumptions about the maintenance programs that may affect the estimation of an asset's useful life), and whether they are consistent with the entity's business plans and the external environment; and
 - Outside the control of management (for example, assumptions about interest rates, mortality rates or potential judicial or regulatory actions).
- The requirements of the applicable financial reporting framework related to the disclosure of assumptions.

A41. With respect to fair value accounting estimates, assumptions vary in terms of the sources of the data and the basis for the judgements to support them, as follows:

ISA (NZ) 540 (Revised)

- (a) Those that reflect what marketplace participants would use in pricing an asset or liability, developed based on market data obtained from sources independent of the reporting entity.
- (b) Those that reflect the entity's own judgements about what assumptions marketplace participants would use in pricing the asset or liability, developed based on the best data available in the circumstances.

In practice, however, the distinction between (a) and (b) may not always be apparent and distinguishing between them depends on understanding the sources of data and the basis for the judgements that support the assumption. Further, it may be necessary for management to select from a number of different assumptions used by different marketplace participants.

A42. Assumptions used in making an accounting estimate are referred to as significant assumptions in this ISA (NZ) if a reasonable variation in the assumption would materially affect the measurement of the accounting estimate. A sensitivity analysis may be useful in demonstrating the degree to which the measurement varies based on one or more assumptions used in making the accounting estimate.

Inactive or illiquid markets

A43. When markets are inactive or illiquid, the auditor's understanding of how management selects assumptions may include understanding whether management has:

- Implemented appropriate policies for adapting the application of the method in such circumstances. Such adaptation may include making model adjustments or developing new models that are appropriate in the circumstances;
- Resources with the necessary skills or knowledge to adapt or develop a model, if necessary on an urgent basis, including selecting the valuation technique that is appropriate in such circumstances;
- The resources to determine the range of outcomes, given the uncertainties involved, for example by performing a sensitivity analysis;
- The means to assess how, when applicable, the deterioration in market conditions has affected the entity's operations, environment and relevant business risks and the implications for the entity's accounting estimates, in such circumstances; and
- An appropriate understanding of how the price data, and the relevance thereof, from particular external information sources may vary in such circumstances.

Data (Ref: Para. 13(h)(ii)(a)(iii))

A44. Matters that the auditor may consider in obtaining an understanding of how management selects the data on which the accounting estimates are based include:

- The nature and source of the data, including information obtained from an external information source.
- How management evaluates whether the data is appropriate.
- The accuracy and completeness of the data.
- The consistency of the data used with data used in previous periods.

ISA (NZ) 540 (Revised)

- The complexity IT applications or other aspects of the entity's IT environment used to obtain and process the data, including when this involves handling large volumes of data.
- How the data is obtained, transmitted and processed and how its integrity is maintained.

How management understands and addresses estimation uncertainty (Ref: Para. 13(h)(ii)(b)–13(h)(ii)(c))

A45. Matters that may be appropriate for the auditor to consider relating to whether and how management understands the degree of estimation uncertainty include, for example:

- Whether, and if so, how management identified alternative methods, significant assumptions or sources of data that are appropriate in the context of the applicable financial reporting framework.
- Whether, and if so, how management considered alternative outcomes by, for example, performing a sensitivity analysis to determine the effect of changes in the significant assumptions or the data used in making the accounting estimate.

A46. The requirements of the applicable financial reporting framework may specify the approach to selecting management's point estimate from the reasonably possible measurement outcomes. Financial reporting frameworks may recognise that the appropriate amount is one that is appropriately selected from the reasonably possible measurement outcomes and, in some cases, may indicate that the most relevant amount may be in the central part of that range.

A47. For example, with respect to fair value estimates, NZ IFRS⁴⁰ indicates that, if multiple valuation techniques are used to measure fair value, the results (i.e., respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances. In other cases, the applicable financial reporting framework may specify the use of a probability-weighted average of the reasonably possible measurement outcomes, or of the measurement amount that is most likely or that is more likely than not.

A48. The applicable financial reporting framework may prescribe disclosures or disclosure objectives related to accounting estimates, and some entities may choose to disclose additional information. These disclosures or disclosure objectives may address, for example:

- The method of estimation used, including any applicable model and the basis for its selection.
- Information that has been obtained from models, or from other calculations used to determine estimates recognised or disclosed in the financial statements, including information relating to the underlying data and assumptions used in those models, such as:
 - Assumptions developed internally; or
 - Data, such as interest rates, that are affected by factors outside the control of the entity.

⁴⁰ NZ IFRS 13 *Fair Value Measurement*, paragraph 63

ISA (NZ) 540 (Revised)

- The effect of any changes to the method of estimation from the prior period.
- The sources of estimation uncertainty.
- Fair value information.
- Information about sensitivity analyses derived from financial models that demonstrates that management has considered alternative assumptions.

A49. In some cases, the applicable financial reporting framework may require specific disclosures regarding estimation uncertainty, for example:

- The disclosure of information about the assumptions made about the future and other major sources of estimation uncertainty that give rise to a higher likelihood or magnitude of material adjustment to the carrying amounts of assets and liabilities after the period end. Such requirements may be described using terms such as “Key Sources of Estimation Uncertainty” or “Critical Accounting Estimates.” They may relate to accounting estimates that require management’s most difficult, subjective or complex judgements. Such judgements may be more subjective and complex, and accordingly the potential for a consequential material adjustment to the carrying amounts of assets and liabilities may increase, with the number of items of data and assumptions affecting the possible future resolution of the estimation uncertainty. Information that may be disclosed includes:
 - The nature of the assumption or other source of estimation uncertainty;
 - The sensitivity of carrying amounts to the methods and assumptions used, including the reasons for the sensitivity;
 - The expected resolution of an uncertainty and the range of reasonably possible outcomes in respect of the carrying amounts of the assets and liabilities affected; and
 - An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.
- The disclosure of the range of possible outcomes, and the assumptions used in determining the range.
- The disclosure of specific information, such as:
 - Information regarding the significance of fair value accounting estimates to the entity’s financial position and performance; and
 - Disclosures regarding market inactivity or illiquidity.
- Qualitative disclosures such as the exposures to risk and how they arise, the entity’s objectives, policies and procedures for managing the risk and the methods used to measure the risk and any changes from the previous period of these qualitative concepts.
- Quantitative disclosures such as the extent to which the entity is exposed to risk, based on information provided internally to the entity’s key management personnel, including credit risk, liquidity risk and market risk.

ISA (NZ) 540 (Revised)**Identified Control Over Management's Process for Making Accounting Estimates (Ref: Para 13(i))**

A50. The auditor's judgement in identifying controls in the controls activities component, and therefore the need to evaluate the design of those controls and determine whether they have been implemented, relates to management's process described in paragraph 13(h)(ii). The auditor may not identify controls in relation to all aspects of paragraph 13(h)(ii).

A51. As part of identifying the control and evaluating their design and determining whether they have been implemented, the auditor may consider:

- How management determines the appropriateness of the data used to develop the accounting estimates, including when management uses an external information source or data from outside the general and subsidiary ledgers.
- The review and approval of accounting estimates, including the assumptions or data used in their development, by appropriate levels of management and, where appropriate, those charged with governance.
- The segregation of duties between those responsible for making the accounting estimates and those committing the entity to the related transactions, including whether the assignment of responsibilities appropriately takes account of the nature of the entity and its products or services. For example, in the case of a large financial institution, relevant segregation of duties may consist of an independent function responsible for estimation and validation of fair value pricing of the entity's financial products staffed by individuals whose remuneration is not tied to such products.
- The effectiveness of the design of the controls. Generally, it may be more difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements, than it is to design controls that address complexity. Controls that address subjectivity and estimation uncertainty may need to include more manual elements, which may be less reliable than automated controls as they can be more easily bypassed, ignored or overridden by management. The design effectiveness of controls addressing complexity may vary depending on the reason for, and the nature of, the complexity. For example, it may be easier to design more effective controls related to a method that is routinely used or over the integrity of data.

A52. When management makes extensive use of information technology in making an accounting estimate, identified controls in the control activities component are likely to include general IT controls and information processing controls. Such controls may address risks related to:

- Whether the IT applications or other aspects of the IT environment has the capability and is appropriately configured to process large volumes of data;
- Complex calculations in applying a method. When diverse IT applications are required to process complex transactions, regular reconciliations between the IT applications are made, in particular when the IT applications do not have automated interfaces or may be subject to manual intervention;
- Whether the design and calibration of models is periodically evaluated;

ISA (NZ) 540 (Revised)

- The complete and accurate extraction of data regarding accounting estimates from the entity's records or from external information sources;
- Data, including the complete and accurate flow of data through the entity's information system, the appropriateness of any modification to the data used in making accounting estimates, the maintenance of the integrity and security of the data. When using external information sources, risks related to processing or recording the data;
- Whether management has controls around access, change and maintenance of individual models to maintain a strong audit trail of the accredited versions of models and to prevent unauthorised access or amendments to those models; and
- Whether there are appropriate controls over the transfer of information relating to accounting estimates into the general ledger, including appropriate controls over journal entries.

A53. In some industries, such as banking or insurance, the term governance may be used to describe activities within the control environment, the entity's process to monitor the system of internal control, and other components of the system of internal control, as described in ISA (NZ) 315 (Revised 2019).⁴¹

A54. For entities with an internal audit function, its work may be particularly helpful to the auditor in obtaining an understanding of:

- The nature and extent of management's use of accounting estimates;
- The design and implementation of controls that address the risks related to the data, assumptions and models used to make the accounting estimates;
- The aspects of the entity's information system that generate the data on which the accounting estimates are based; and
- How new risks relating to accounting estimates are identified, assessed and managed.

Reviewing the Outcome or Re-Estimation of Previous Accounting Estimates (Ref: Para. 14)

A55. A review of the outcome or re-estimation of previous accounting estimates (retrospective review) assists in identifying and assessing the risks of material misstatement when previous accounting estimates have an outcome through transfer or realisation of the asset or liability in the current period, or are re-estimated for the purpose of the current period. Through performing a retrospective review, the auditor may obtain:

- Information regarding the effectiveness of management's previous estimation process, from which the auditor can obtain audit evidence about the likely effectiveness of management's current process
- Audit evidence of matters, such as the reasons for changes that may be required to be disclosed in the financial statements.
- Information regarding the complexity or estimation uncertainty pertaining to the accounting estimates.
- Information regarding the susceptibility of accounting estimates to, or that may be an indicator of, possible management bias. The auditor's professional scepticism

⁴¹ ISA (NZ) 315 (Revised 2019) Appendix 3.

ISA (NZ) 540 (Revised)

assists in identifying such circumstances or conditions and in determining the nature, timing and extent of further audit procedures.

- A56. A retrospective review may provide audit evidence that supports the identification and assessment of the risks of material misstatement in the current period. Such a retrospective review may be performed for accounting estimates made for the prior period's financial statements, or may be performed over several periods or a shorter period (such as half-yearly or quarterly). In some cases, a retrospective review over several periods may be appropriate when the outcome of an accounting estimate is resolved over a longer period.
- A57. A retrospective review of management judgements and assumptions related to [significant](#) accounting estimates is required by ISA (NZ) 240.⁴² As a practical matter, the auditor's review of previous accounting estimates as a risk assessment procedure in accordance with this ISA (NZ) may be carried out in conjunction with the review required by ISA (NZ) 240.
- A58. Based on the auditor's previous assessment of the risks of material misstatement, for example, if inherent risk is assessed as higher for one or more risks of material misstatement, the auditor may judge that a more detailed retrospective review is required. As part of the detailed retrospective review, the auditor may pay particular attention, when practicable, to the effect of data and significant assumptions used in making the previous accounting estimates. On the other hand, for example, for accounting estimates that arise from the recording of routine and recurring transactions, the auditor may judge that the application of analytical procedures as risk assessment procedures is sufficient for purposes of the review.
- A59. The measurement objective for fair value accounting estimates and other accounting estimates, based on current conditions at the measurement date, deals with perceptions about value at a point in time, which may change significantly and rapidly as the environment in which the entity operates changes. The auditor may therefore focus the review on obtaining information that may be relevant to identifying and assessing risks of material misstatement. For example, in some cases, obtaining an understanding of changes in marketplace participant assumptions that affected the outcome of a previous period's fair value accounting estimates may be unlikely to provide relevant audit evidence. In this case, audit evidence may be obtained by understanding the outcomes of assumptions (such as a cash flow projections) and understanding the effectiveness of management's prior estimation process that supports the identification and assessment of the risk of material misstatement in the current period.
- A60. A difference between the outcome of an accounting estimate and the amount recognised in the previous period's financial statements does not necessarily represent a misstatement of the previous period's financial statements. However, such a difference may represent a misstatement if, for example, the difference arises from information that was available to management when the previous period's financial statements were finalised, or that could reasonably be expected to have been obtained and taken into account in the context of the applicable financial reporting framework.⁴³ Such a difference may call into question management's process for taking information into account in making the accounting estimate. As a result, the auditor may reassess any plan

⁴² ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph [33\(b\)\(ii\)28](#)

⁴³ ISA (NZ) 560, *Subsequent Events*, paragraph 14

ISA (NZ) 540 (Revised)

to test related controls and the related assessment of control risk or may determine that more persuasive audit evidence needs to be obtained about the matter. Many financial reporting frameworks contain guidance on distinguishing between changes in accounting estimates that constitute misstatements and changes that do not, and the accounting treatment required to be followed in each case.

Specialised Skills or Knowledge (Ref: Para. 15)

A61. Matters that may affect the auditor's determination of whether the engagement team requires specialised skills or knowledge, include, for example:⁴⁴

- The nature of the accounting estimates for a particular business or industry (for example, mineral deposits, agricultural assets, complex financial instruments, insurance contract liabilities).
- The degree of estimation uncertainty.
- The complexity of the method or model used.
- The complexity of the requirements of the applicable financial reporting framework relevant to accounting estimates, including whether there are areas known to be subject to differing interpretation or practice or areas where there are inconsistencies in how accounting estimates are made.
- The procedures the auditor intends to undertake in responding to assessed risks of material misstatement.
- The need for judgement about matters not specified by the applicable financial reporting framework.
- The degree of judgement needed to select data and assumptions.
- The complexity and extent of the entity's use of information technology in making accounting estimates.

The nature, timing and extent of the involvement of individuals with specialised skills and knowledge may vary throughout the audit.

A62. The auditor may not possess the specialised skills or knowledge necessary when the matter involved is in a field other than accounting or auditing (for example, valuation skills) and may need to use an auditor's expert.⁴⁵

A63. Many accounting estimates do not require the application of specialised skills or knowledge. For example, specialised skills or knowledge may not be needed for a simple inventory obsolescence calculation. However, for example, for expected credit losses of a banking institution or an insurance contract liability for an insurance entity, the auditor is likely to conclude that it is necessary to apply specialised skills or knowledge.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 4, 16)

A64. Identifying and assessing risks of material misstatement at the assertion level relating to accounting estimates is important for all accounting estimates, including not only those that are recognised in the financial statements, but also those that are included in the notes to the financial statements.

⁴⁴ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraphs 25-26 and ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 8(e)

⁴⁵ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

ISA (NZ) 540 (Revised)

A65. Paragraph A42 of ISA (NZ) 200 states that the ISAs (NZ) typically refer to the “risks of material misstatement” rather than to inherent risk and control risk separately. ISA (NZ) 315 (Revised 2019)) requires a separate assessment of inherent risk and control risk to provide a basis for designing and performing further audit procedures to respond to the risks of material misstatement at the assertion level,⁴⁶ including significant risks in accordance with ISA (NZ) 330.⁴⁷

A66. In identifying the risks of material misstatement and in assessing inherent risk for accounting estimates in accordance with ISA (NZ) 315 (Revised 2019),⁴⁸ the auditor is required to take into account, the inherent risk factors that affect susceptibility to misstatement of assertions, and how they do so. The auditor’s consideration of the inherent risk factors may also provide information to be used in:

- Assessing the likelihood and magnitude of misstatement (i.e., where inherent risk is assessed on the spectrum of inherent risk); and
- Determining the reasons for the assessment given to the risks of material misstatement at the assertion level, and that the auditor’s further audit procedures in accordance with paragraph 18 are responsive to those reasons.

The interrelationships between the inherent risk factors are further explained in Appendix 1.

A67. The reasons for the auditor’s assessment of inherent risk at the assertion level may result from one or more of the inherent risk factors of estimation uncertainty, complexity, subjectivity or other inherent risk factors. For example:

- (a) Accounting estimates of expected credit losses are likely to be complex because the expected credit losses cannot be directly observed and may require the use of a complex model. The model may use a complex set of historical data and assumptions about future developments in a variety of entity specific scenarios that may be difficult to predict. Accounting estimates for expected credit losses are also likely to be subject to high estimation uncertainty and significant subjectivity in making judgements about future events or conditions. Similar considerations apply to insurance contract liabilities.
- (b) An accounting estimate for an obsolescence provision for an entity with a wide range of different inventory types may require complex systems and processes, but may involve little subjectivity and the degree of estimation uncertainty may be low, depending on the nature of the inventory.
- (c) Other accounting estimates may not be complex to make but may have high estimation uncertainty and require significant judgement, for example, an accounting estimate that requires a single critical judgement about a liability, the amount of which is contingent on the outcome of the litigation.

A68. The relevance and significance of inherent risk factors may vary from one estimate to another. Accordingly, the inherent risk factors may, either individually or in combination, affect simple accounting estimates to a lesser degree and the auditor may identify fewer risks or assess inherent risk close to the lower end of the spectrum of inherent risk.

⁴⁶ ISA (NZ) 315 (Revised 2019), paragraphs 31 and 34

⁴⁷ ISA (NZ) 330, paragraph 7(b)

⁴⁸ ISA (NZ) 315 (Revised 2019), paragraph 31(a)

ISA (NZ) 540 (Revised)

- A69. Conversely, the inherent risk factors may, either individually or in combination, affect complex accounting estimates to a greater degree, and may lead the auditor to assess inherent risk at the higher end of the spectrum of inherent risk. For these accounting estimates, the auditor's consideration of the effects of the inherent risk factors is likely to directly affect the number and nature of identified risks of material misstatement, the assessment of such risks, and ultimately the persuasiveness of the audit evidence needed in responding to the assessed risks. Also, for these accounting estimates the auditor's application of professional scepticism may be particularly important.
- A70. Events occurring after the date of the financial statements may provide additional information relevant to the auditor's assessment of the risks of material misstatement at the assertion level. For example, the outcome of an accounting estimate may become known during the audit. In such cases, the auditor may assess or revise the assessment of the risks of material misstatement at the assertion level,⁴⁹ regardless of how inherent risk factors affect susceptibility of assertions to misstatement relating to the accounting estimate. Events occurring after the date of the financial statements also may influence the auditor's selection of the approach to testing the accounting estimate in accordance with paragraph 18. For example, for a simple bonus accrual that is based on a straightforward percentage of compensation for selected employees, the auditor may conclude that there is relatively little complexity or subjectivity in making the accounting estimate, and therefore may assess inherent risk at the assertion level close to the lower end of the spectrum of inherent risk. The payment of the bonuses subsequent to period end may provide sufficient appropriate audit evidence regarding the assessed risks of material misstatement at the assertion level.
- A71. The auditor's assessment of control risk may be done in different ways depending on preferred audit techniques or methodologies. The control risk assessment may be expressed using qualitative categories (for example, control risk assessed as maximum, moderate, minimum) or in terms of the auditor's expectation of how effective the control(s) is in addressing the identified risk, that is, the planned reliance on the effective operation of controls. For example, if control risk is assessed as maximum, the auditor contemplates no reliance on the effective operation of controls. If control risk is assessed at less than maximum, the auditor contemplates reliance on the effective operation of controls.

Estimation Uncertainty (Ref: Para. 16(a))

- A72. In taking into account the degree to which the accounting estimate is subject to estimation uncertainty, the auditor may consider:
- Whether the applicable financial reporting framework requires:
 - The use of a method to make the accounting estimate that inherently has a high level of estimation uncertainty. For example, the financial reporting framework may require the use of unobservable inputs.
 - The use of assumptions that inherently have a high level of estimation uncertainty, such as assumptions with a long forecast period, assumptions that are based on data that is unobservable and are therefore difficult for management to develop, or the use of various assumptions that are interrelated.

⁴⁹ ISA (NZ) 315 (Revised 2019), paragraph 37

ISA (NZ) 540 (Revised)

- Disclosures about estimation uncertainty.
- The business environment. An entity may be active in a market that experiences turmoil or possible disruption (for example, from major currency movements or inactive markets) and the accounting estimate may therefore be dependent on data that is not readily observable.
- Whether it is possible (or practicable, insofar as permitted by the applicable financial reporting framework) for management:
 - To make a precise and reliable prediction about the future realisation of a past transaction (for example, the amount that will be paid under a contingent contractual term), or about the incidence and impact of future events or conditions (for example, the amount of a future credit loss or the amount at which an insurance claim will be settled and the timing of its settlement); or
 - To obtain precise and complete information about a present condition (for example, information about valuation attributes that would reflect the perspective of market participants at the date of the financial statements, to develop a fair value estimate).

A73. The size of the amount recognised or disclosed in the financial statements for an accounting estimate is not, in itself, an indicator of its susceptibility to misstatement because, for example, the accounting estimate may be understated.

A74. In some circumstances, the estimation uncertainty may be so high that a reasonable accounting estimate cannot be made. The applicable financial reporting framework may preclude recognition of an item in the financial statements, or its measurement at fair value. In such cases, there may be risks of material misstatement that relate not only to whether an accounting estimate should be recognised, or whether it should be measured at fair value, but also to the reasonableness of the disclosures. With respect to such accounting estimates, the applicable financial reporting framework may require disclosure of the accounting estimates and the estimation uncertainty associated with them (see paragraphs A112–A113, A143–A144).

A75. In some cases, the estimation uncertainty relating to an accounting estimate may affect the auditor's professional judgement as to whether a material uncertainty exists related to events or conditions that may cast significant doubt ~~about-on~~ the entity's ability to continue as a going concern. ISA (NZ) 570–(Revised)⁵⁰ establishes requirements and provides guidance in such circumstances.

Complexity or Subjectivity (Ref: Para. 16(b))

The Degree to Which Complexity Affects the Selection and Application of the Method

A76. In taking into account the degree to which the selection and application of the method used in making the accounting estimate are affected by complexity, the auditor may consider:

- The need for specialised skills or knowledge by management which may indicate that the method used to make an accounting estimate is inherently complex and therefore the accounting estimate may have a greater susceptibility to material misstatement. There may be a greater susceptibility to material misstatement when

⁵⁰ ISA (NZ) 570, (Revised), *Going Concern*

ISA (NZ) 540 (Revised)

management has developed a model internally and has relatively little experience in doing so, or uses a model that applies a method that is not established or commonly used in a particular industry or environment.

- The nature of the measurement basis required by the applicable financial reporting framework, which may result in the need for a complex method that requires multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them. For example, an expected credit loss provision may require judgements about future credit repayments and other cash flows, based on consideration of historical experience data and the application of forward looking assumptions. Similarly, the valuation of an insurance contract liability may require judgements about future insurance contract payments to be projected based on historical experience and current and assumed future trends.

The Degree to Which Complexity Affects the Selection and Application of the Data

A77. In taking into account the degree to which the selection and application of the data used in making the accounting estimate are affected by complexity, the auditor may consider:

- The complexity of the process to derive the data, taking into account the relevance and reliability of the data source. Data from certain sources may be more reliable than from others. Also, for confidentiality or proprietary reasons, some external information sources will not (or not fully) disclose information that may be relevant in considering the reliability of the data they provide, such as the sources of the underlying data they used or how it was accumulated and processed.
- The inherent complexity in maintaining the integrity of the data. When there is a high volume of data and multiple sources of data, there may be inherent complexity in maintaining the integrity of data that is used to make an accounting estimate.
- The need to interpret complex contractual terms. For example, the determination of cash inflows or outflows arising from a commercial supplier or customer rebates may depend on very complex contractual terms that require specific experience or competence to understand or interpret.

The Degree to Which Subjectivity Affects the Selection and Application of the Method, Assumptions or Data

A78. In taking into account the degree to which the selection and application of method, assumptions or data are affected by subjectivity, the auditor may consider:

- The degree to which the applicable financial reporting framework does not specify the valuation approaches, concepts, techniques and factors to use in the estimation method.
- The uncertainty regarding the amount or timing, including the length of the forecast period. The amount and timing is a source of inherent estimation uncertainty, and gives rise to the need for management judgement in selecting a point estimate, which in turn creates an opportunity for management bias. For example, an accounting estimate that incorporates forward looking assumptions may have a high degree of subjectivity which may be susceptible to management bias.

Other Inherent Risk Factors (Ref: Para. 16(b))

A79. The degree of subjectivity associated with an accounting estimate influences the susceptibility of the accounting estimate to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk. For example, when an accounting estimate is subject to a high degree of subjectivity, the accounting estimate is likely to be more susceptible to misstatement due to management bias or fraud and this may result in a wide range of possible measurement outcomes. Management may select a point estimate from that range that is inappropriate in the circumstances, or that is inappropriately influenced by unintentional or intentional management bias, and that is therefore misstated. For continuing audits, indicators of possible management bias identified during the audit of preceding periods may influence the planning and risk assessment procedures in the current period.

Significant Risks (Ref: Para. 17)

A80. The auditor's assessment of inherent risk, which takes into account the degree to which an accounting estimate is subject to, or affected by estimation uncertainty, complexity, subjectivity or other inherent risk factors, assists the auditor in determining whether any of the risks of material misstatement identified and assessed are a significant risk.

Responses to the Assessed Risks of Material Misstatement*The Auditor's Further Audit Procedures (Ref: Para. 18)*

A81. In designing and performing further audit procedures the auditor may use any of the three testing approaches (individually or in combination) listed in paragraph 18. For example, when several assumptions are used to make an accounting estimate, the auditor may decide to use a different testing approach for each assumption tested.

Obtaining Relevant Audit Evidence Whether Corroborative or Contradictory

A82. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions.⁵¹ Obtaining audit evidence in an unbiased manner may involve obtaining evidence from multiple sources within and outside the entity. However, the auditor is not required to perform an exhaustive search to identify all possible sources of audit evidence.

A83. ISA (NZ) 330 requires the auditor to obtain more persuasive audit evidence the higher the auditor's assessment of the risk.⁵² Therefore, the consideration of the nature or quantity of the audit evidence may be more important when inherent risks relating to an accounting estimate is assessed at the higher end of the spectrum of inherent risk.

Scalability

A84. The nature, timing and extent of the auditor's further audit procedures are affected by, for example:

- The assessed risks of material misstatement, which affect the persuasiveness of the audit evidence needed and influence the approach the auditor selects to audit an accounting estimate. For example, the assessed risks of material misstatement relating to the existence or valuation assertions may be lower for a straightforward

⁵¹ ISA (NZ) 500, paragraph A5

⁵² ISA (NZ) 330, paragraph 7(b), A19

ISA (NZ) 540 (Revised)

accrual for bonuses that are paid to employees shortly after period end. In this situation, it may be more practical for the auditor to obtain sufficient appropriate audit evidence by evaluating events occurring up to the date of the auditor's report, rather than through other testing approaches.

A71. The reasons for the assessed risks of material misstatement.

When the Auditor Intends to Rely on the Operating Effectiveness of Controls (Ref: Para: 19)

A85. Testing the operating effectiveness of controls may be appropriate when inherent risk is assessed as higher on the spectrum of inherent risk, including for significant risks. This may be the case when the accounting estimate is subject to or affected by a high degree of complexity. When the accounting estimate is affected by a high degree of subjectivity, and therefore requires significant judgement by management, inherent limitations in the effectiveness of the design of controls may lead the auditor to focus more on substantive procedures than on testing the operating effectiveness of controls.

A86. In determining the nature, timing and extent of testing of the operating effectiveness of controls relating to accounting estimates, the auditor may consider factors such as:

- The nature, frequency and volume of transactions;
- The effectiveness of the design of the controls, including whether controls are appropriately designed to respond to the assessed inherent risk, and the strength of governance;
- The importance of particular controls to the overall control objectives and processes in place at the entity, including the sophistication of the information system to support transactions;
- The monitoring of controls and identified deficiencies in internal control;
- The nature of the risks the controls are intended to address, for example, controls related to the exercise of judgement compared with controls over supporting data;
- The competency of those involved in the control activities;
- The frequency of performance of the control activities; and

A72. The evidence of performance of control activities.

Substantive Procedures Alone Cannot Provide Sufficient Appropriate Audit Evidence

A87. In some industries, such as the financial services industry, management makes extensive use of IT to conduct business. It may therefore be more likely that there are risks related to certain accounting estimates for which substantive procedures alone cannot provide sufficient appropriate audit evidence.

A88. Circumstances when risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level may exist include:

- When controls are necessary to mitigate risks relating to the initiation, recording, processing, or reporting of information obtained from outside of the general and subsidiary ledgers.
- Information supporting one or more assertions is electronically initiated, recorded, processed, or reported. This is likely to be the case when there is a high volume of transactions or data, or a complex model is used, requiring the extensive use of information technology to ensure the accuracy and completeness of the

ISA (NZ) 540 (Revised)

information. A complex expected credit loss provision may be required for a financial institution or utility entity. For example, in the case of a utility entity, the data used in developing the expected credit loss provision may comprise many small balances resulting from a high volume of transactions. In these circumstances, the auditor may conclude that sufficient appropriate audit evidence cannot be obtained without testing controls around the model used to develop the expected credit loss provision.

In such cases, the sufficiency and appropriateness of the audit evidence may depend on the effectiveness of controls over the accuracy and completeness of the information.

- A89. As part of the audit of the financial statements for certain entities (such as a bank or insurer), the auditor also may be required by law or regulation to undertake additional procedures in relation to, or to provide an assurance conclusion on, internal control. In these and other similar circumstances, the auditor may be able to use information obtained in performing such procedures as audit evidence, subject to determining whether subsequent changes have occurred that may affect its relevance to the audit.

Significant Risks (Ref: Para. 20)

- A90. When the auditor's further audit procedures in response to a significant risk consist only of substantive procedures, ISA (NZ) 330⁵³ requires that those procedures include tests of details. Such tests of details may be designed and performed under each of the approaches described in paragraph 18 of this ISA (NZ) based on the auditor's professional judgement in the circumstances. Examples of tests of details for significant risks related to accounting estimates include:

- Examination, for example, examining contracts to corroborate terms or assumptions.
- Recalculation, for example, verifying the mathematical accuracy of a model.
- Agreeing assumptions used to supporting documentation, such as third-party published information.

Obtaining Audit Evidence from Events Occurring up to the Date of the Auditor's Report (Ref: Para. 21)

- A91. In some circumstances, obtaining audit evidence from events occurring up to the date of the auditor's report may provide sufficient appropriate audit evidence to address the risks of material misstatement. For example, sale of the complete inventory of a discontinued product shortly after the period end may provide sufficient appropriate audit evidence relating to the estimate of its net realisable value at the period end. In other cases, it may be necessary to use this testing approach in connection with another approach in paragraph 18.
- A92. For some accounting estimates, events occurring up to the date of the auditor's report are unlikely to provide sufficient appropriate audit evidence regarding the accounting estimate. For example, the conditions or events relating to some accounting estimates develop only over an extended period. Also, because of the measurement objective of fair value accounting estimates, information after the period-end may not reflect the events or conditions existing at the balance sheet date and therefore may not be relevant to the measurement of the fair value accounting estimate.

⁵³ ISA (NZ) 330, paragraph 21

ISA (NZ) 540 (Revised)

A93. Even if the auditor decides not to undertake this testing approach in respect of specific accounting estimates, the auditor is required to comply with ISA (NZ) 560. ISA (NZ) 560 requires the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified⁵⁴ and appropriately reflected in the financial statements.⁵⁵ Because the measurement of many accounting estimates, other than fair value accounting estimates, usually depends on the outcome of future conditions, transactions or events, the auditor's work under ISA (NZ) 560 is particularly relevant.

Testing How Management Made the Accounting Estimate (Ref: Para. 22)

A94. Testing how management made the accounting estimate may be an appropriate approach when, for example:

- The auditor's review of similar accounting estimates made in the prior period financial statements suggests that management's current period process is appropriate.
- The accounting estimate is based on a large population of items of a similar nature that individually are not significant.
- The applicable financial reporting framework specifies how management is expected to make the accounting estimate. For example, this may be the case for an expected credit loss provision.
- The accounting estimate is derived from the routine processing of data.

Testing how management made the accounting estimate may also be an appropriate approach when neither of the other testing approaches is practical to perform, or may be an appropriate approach in combination with one of the other testing approaches.

Changes in Methods, Significant Assumptions and the Data from Prior Periods (Ref: Para. 23(a), 24(a), 25(a))

A95. When a change from prior periods in a method, significant assumption, or the data is not based on new circumstances or new information, or when significant assumptions are inconsistent with each other and with those used in other accounting estimates, or with related assumptions used in other areas of the entity's business activities, the auditor may need to have further discussions with management about the circumstances and, in doing so, challenge management regarding the appropriateness of the assumptions used.

Indicators of Management Bias (Ref: Para. 23(b), 24(b), 25(b))

A96. When the auditor identifies indicators of possible management bias, the auditor may need a further discussion with management and may need to reconsider whether sufficient appropriate audit evidence has been obtained that the method, assumptions and data used were appropriate and supportable in the circumstances. An example of an indicator of management bias for a particular accounting estimate may be when management has developed an appropriate range for several different assumptions, and in each case the assumption used was from the end of the range that resulted in the most favourable measurement outcome.

⁵⁴ ISA (NZ) 560, paragraph 6

⁵⁵ ISA (NZ) 560, paragraph 8

Methods

The selection of the method (Ref: Para. 23(a))

A97. Relevant considerations for the auditor regarding the appropriateness of the method selected in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of changes from the prior period may include:

- Whether management's rationale for the method selected is appropriate;
- Whether the method is appropriate in the circumstances given the nature of the accounting estimate, the requirements of the applicable financial reporting framework, other available valuation concepts or techniques, regulatory requirements, and the business, industry and environment in which the entity operates;
- When management has determined that different methods result in a range of significantly different estimates, how management has investigated the reasons for these differences; and
- Whether the change is based on new circumstances or new information. When this is not the case, the change may not be reasonable or in compliance with the applicable financial reporting framework. Arbitrary changes result in inconsistent financial statements over time and may give rise to financial statement misstatements or may be an indicator of possible management bias. (see also paragraphs A133–A136)

These matters are important when the applicable financial reporting framework does not prescribe the method of measurement or allows multiple methods.

Complex modelling (Ref: Para. 23(d))

A98. A model, and the related method, is more likely to be complex when:

- Understanding and applying the method, including designing the model and selecting and using appropriate data and assumptions, requires specialised skills or knowledge;
- It is difficult to obtain data needed for use in the model because there are restrictions on the availability or observability of, or access to, data; or
- It is difficult to maintain the integrity (e.g., accuracy, consistency, or completeness) of the data and assumptions in using the model due to multiple valuation attributes, multiple relationships between them, or multiple iterations of the calculation.

A99. Matters that the auditor may consider when management uses a complex model include, for example, whether:

- The model is validated prior to usage or when there has been a change to the model, with periodic reviews to ensure it is still suitable for its intended use. The entity's validation process may include evaluation of:
 - The model's theoretical soundness;
 - The model's mathematical integrity;
 - The accuracy and completeness of the model's data and assumptions; and
 - The model's output as compared to actual transactions.
- Appropriate change control policies and procedures exist.

ISA (NZ) 540 (Revised)

- Management uses appropriate skills and knowledge in using the model.

These considerations may also be useful for a method that does not involve complex modelling.

A100. Management may make adjustments to the output of the model to meet the requirements of the applicable financial reporting framework. In some industries these adjustments are referred to as overlays. In the case of fair value accounting estimates, it may be relevant to consider whether adjustments to the output of the model, if any, reflect the assumptions marketplace participants would use in similar circumstances.

Maintenance of integrity of significant assumptions and the data used in applying the method (Ref: Para. 23(e))

A101. Maintaining the integrity of significant assumptions and the data in applying the method refers to the maintenance of the accuracy and completeness of the data and assumptions through all stages of information processing. A failure to maintain such integrity may result in corruption of the data and assumptions and may give rise to misstatements. In this regard, relevant considerations for the auditor may include whether the data and assumptions are subject to all changes intended by management, and not subject to any unintended changes, during activities such as input, storage, retrieval, transmission or processing.

Significant Assumptions (Ref: Para. 24)

A102. Relevant considerations for the auditor regarding the appropriateness of the significant assumptions in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of changes from the prior period may include:

- Management's rationale for the selection of the assumption;
- Whether the assumption is appropriate in the circumstances given the nature of the accounting estimate, the requirements of the applicable financial reporting framework, and the business, industry and environment in which the entity operates; and
- Whether a change from prior periods in selecting an assumption is based on new circumstances or new information. When it is not, the change may not be reasonable nor in compliance with the applicable financial reporting framework. Arbitrary changes in an accounting estimate may give rise to material misstatements of the financial statements or may be an indicator of possible management bias (see paragraphs A133–A136).

A103. Management may evaluate alternative assumptions or outcomes of accounting estimates, which may be accomplished through a number of approaches depending on the circumstances. One possible approach is a sensitivity analysis. This might involve determining how the monetary amount of an accounting estimate varies with different assumptions. Even for accounting estimates measured at fair value, there may be variation because different market participants will use different assumptions. A sensitivity analysis may lead to the development of a number of outcome scenarios, sometimes characterised as a range of outcomes by management, and including 'pessimistic' and 'optimistic' scenarios.

A104. Through the knowledge obtained in performing the audit, the auditor may become aware of or may have obtained an understanding of assumptions used in other areas of the entity's business. Such matters may include, for example, business prospects,

ISA (NZ) 540 (Revised)

assumptions in strategy documents and future cash flows. Also, if the engagement partner has performed other engagements for the entity, ISA (NZ) 315 (Revised 2019)⁵⁶ requires the engagement partner to consider whether information obtained from those other engagements is relevant to identifying risks of material misstatement. This information may also be useful to consider in addressing whether significant assumptions are consistent with each other and with those used in other accounting estimates.

A105. The appropriateness of the significant assumptions in the context of the requirements of the applicable financial reporting framework may depend on management's intent and ability to carry out certain courses of action. Management often documents plans and intentions relevant to specific assets or liabilities and the applicable financial reporting framework may require management to do so. The nature and extent of audit evidence to be obtained about management's intent and ability is a matter of professional judgement. When applicable, the auditor's procedures may include the following:

- Review of management's history of carrying out its stated intentions.
- Inspection of written plans and other documentation, including, when applicable, formally approved budgets, authorisations or minutes.
- Enquiry of management about its reasons for a particular course of action.
- Review of events occurring subsequent to the date of the financial statements and up to the date of the auditor's report.
- Evaluation of the entity's ability to carry out a particular course of action given the entity's economic circumstances, including the implications of its existing commitments and legal, regulatory, or contractual restrictions that could affect the feasibility of management's actions.
- Consideration of whether management has met the applicable documentation requirements, if any, of the applicable financial reporting framework.

Certain financial reporting frameworks, however, may not permit management's intentions or plans to be taken into account when making an accounting estimate. This is often the case for fair value accounting estimates because their measurement objective requires that significant assumptions reflect those used by marketplace participants.

Data (Ref: Para. 25(a))

A106. Relevant considerations for the auditor regarding the appropriateness of the data selected for use in the context of the applicable financial reporting framework, and, if applicable, the appropriateness of the changes from the prior period may include:

- Management's rationale for the selection of the data;
- Whether the data is appropriate in the circumstances given the nature of the accounting estimate, the requirements of the applicable financial reporting framework, and the business, industry and environment in which the entity operates; and
- Whether the change from prior periods in the sources or items of data selected or data selected, is based on new circumstances or new information. When it is not, it is unlikely to be reasonable nor in compliance with the applicable financial reporting framework. Arbitrary changes in an accounting estimate result in

⁵⁶ ISA (NZ) 315 (Revised 2019), paragraph 15(b)

ISA (NZ) 540 (Revised)

inconsistent financial statements over time and may give rise to financial statement misstatements or may be an indicator of possible management bias (see paragraphs A133–A136).

Relevance and reliability of the data (Ref: Para. 25(c))

A107. When using information produced by the entity, ISA (NZ) 500 requires the auditor to evaluate whether the information is sufficiently reliable for the auditor's purposes, including as necessary in the circumstances, to obtain audit evidence about the accuracy and completeness of the information and evaluating whether the information is sufficiently precise and detailed for the auditor's purposes.⁵⁷

Complex legal or contractual terms (Ref: Para. 25(d))

A108. Procedures that the auditor may consider when the accounting estimate is based on complex legal or contractual terms include:

- Considering whether specialised skills or knowledge are needed to understand or interpret the contract;
- Enquiring of the entity's legal counsel regarding the legal or contractual terms; and
- Inspecting the underlying contracts to:
 - Evaluate, the underlying business purpose for the transaction or agreement; and
 - Consider whether the terms of the contracts are consistent with management's explanations.

Management's Selection of a Point Estimate and Related Disclosures about Estimation Uncertainty

Management's steps to understand and address estimation uncertainty (Ref: Para. 26(a))

A109. Relevant considerations regarding whether management has taken appropriate steps to understand and address estimation uncertainty may include whether management has:

- (a) Understood the estimation uncertainty, through identifying the sources, and assessing the degree of inherent variability in the measurement outcomes and the resulting range of reasonably possible measurement outcomes;
- (b) Identified the degree to which, in the measurement process, complexity or subjectivity affect the risk of material misstatement, and addressed the resulting potential for misstatement through applying:
 - (i) Appropriate skills and knowledge in making accounting estimates; and
 - (ii) Professional judgement, including by identifying and addressing susceptibility to management bias; and
- (c) Addressed estimation uncertainty through appropriately selecting management's point estimate and related disclosures that describe the estimation uncertainty.

⁵⁷ ISA (NZ) 500, paragraph 9

The selection of management's point estimate and related disclosures of estimation uncertainty (Ref: Para. 26(b))

A110. Matters that may be relevant regarding the selection of management's point estimate and the development of related disclosures about estimation uncertainty include whether:

- The methods and data used were selected appropriately, including when alternative methods for making the accounting estimate and alternative sources of data were available.
- Valuation attributes used were appropriate and complete.
- The assumptions used were selected from a range of reasonably possible amounts and were supported by appropriate data that is relevant and reliable.
- The data used was appropriate, relevant and reliable, and the integrity of that data was maintained.
- The calculations were applied in accordance with the method and were mathematically accurate.
- Management's point estimate is appropriately chosen from the reasonably possible measurement outcomes.
- The related disclosures appropriately describe the amount as an estimate and explain the nature and limitations of the estimation process, including the variability of the reasonably possible measurement outcomes.

A111. Relevant considerations for the auditor regarding the appropriateness of management's point estimate, may include:

- When the requirements of the applicable financial reporting framework prescribe the point estimate that is to be used after consideration of the alternative outcomes and assumptions, or prescribes a specific measurement method, whether management has followed the requirements of the applicable financial reporting framework.
- When the applicable financial reporting framework has not specified how to select an amount from reasonably possible measurement outcomes, whether management has exercised judgement, taking into account the requirements of the applicable financial reporting framework.

A112. Relevant considerations for the auditor regarding management's disclosures about estimation uncertainty include the requirements of the applicable financial reporting framework, which may require disclosures:

- That describe the amount as an estimate and explain the nature and limitations of the process for making it, including the variability in reasonably possible measurement outcomes. The framework also may require additional disclosures to meet a disclosure objective.⁵⁸
- About significant accounting policies related to accounting estimates. Depending on the circumstances, relevant accounting policies may include matters such as the specific principles, bases, conventions, rules and practices applied in preparing and presenting accounting estimates in the financial statements.

⁵⁸ NZ IFRS 13 *Fair Value Measurement*, paragraph 92

ISA (NZ) 540 (Revised)

- About significant or critical judgements (for example, those that had the most significant effect on the amounts recognised in the financial statements) as well as significant forward-looking assumptions or other sources of estimation uncertainty.

In certain circumstances, additional disclosures beyond those explicitly required by the financial reporting framework may be needed in order to achieve fair presentation, or in the case of a compliance framework, for the financial statements not to be misleading.

A113. The greater the degree to which an accounting estimate is subject to estimation uncertainty, the more likely the risks of material misstatement will be assessed as higher and therefore the more persuasive the audit evidence needs to be to determine, in accordance with paragraph 35, whether management's point estimate and related disclosures about estimation uncertainty are reasonable in the context of the applicable financial reporting framework, or are misstated.

A114. If the auditor's consideration of estimation uncertainty associated with an accounting estimate, and its related disclosure, is a matter that required significant auditor attention, then this may constitute a key audit matter.⁵⁹

When Management Has Not Taken Appropriate Steps to Understand and Address Estimation Uncertainty (Ref: Para. 27)

A115. When the auditor determines that management has not taken appropriate steps to understand and address estimation uncertainty, additional procedures that the auditor may request management to perform to understand estimation uncertainty may include, for example, consideration of alternative assumptions or the performance of a sensitivity analysis.

A116. In considering whether it is practicable to develop a point estimate or range, matters the auditor may need to take into account include whether the auditor could do so without compromising independence requirements. This may include relevant ethical requirements that address prohibitions on assuming management responsibilities.

A117. If, after considering management's response, the auditor determines that it is not practicable to develop an auditor's point estimate or range, the auditor is required to evaluate the implications for the audit or the auditor's opinion on the financial statements in accordance with paragraph 34.

Developing an Auditor's Point Estimate or Using an Auditor's Range (Ref: Para. 28–29)

A118. Developing an auditor's point estimate or range to evaluate management's point estimate and related disclosures about estimation uncertainty may be an appropriate approach when, for example:

- The auditor's review of similar accounting estimates made in the prior period financial statements suggests that management's current period process is not expected to be effective.
- The entity's controls within and over management's process for making accounting estimates are not well designed or properly implemented.
- Events or transactions between the period end and the date of the auditor's report have not been properly taken into account, when it is appropriate for management to do so, and such events or transactions appear to contradict management's point estimate.

⁵⁹ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA (NZ) 540 (Revised)

- There are appropriate alternative assumptions or sources of relevant data that can be used in developing an auditor's point estimate or a range.
- Management has not taken appropriate steps to understand or address the estimation uncertainty (see paragraph 27).

A119. The decision to develop a point estimate or range also may be influenced by the applicable financial reporting framework, which may prescribe the point estimate that is to be used after consideration of the alternative outcomes and assumptions, or prescribe a specific measurement method (for example, the use of a discounted probability-weighted expected value, or the most likely outcome).

A120. The auditor's decision as to whether to develop a point estimate rather than a range may depend on the nature of the estimate and the auditor's judgement in the circumstances. For example, the nature of the estimate may be such that there is expected to be less variability in the reasonably possible outcomes. In these circumstances, developing a point estimate may be an effective approach, particularly when it can be developed with a higher degree of precision.

A121. The auditor may develop a point estimate or a range in a number of ways, for example, by:

- Using a different model than the one used by management, for example, one that is commercially available for use in a particular sector or industry, or a proprietary or auditor-developed model.
- Using management's model but developing alternative assumptions or data sources to those used by management.
- Using the auditor's own method but developing alternative assumptions to those used by management.
- Employing or engaging a person with specialised expertise to develop or execute a model, or to provide relevant assumptions.
- Consideration of other comparable conditions, transactions or events, or, where relevant, markets for comparable assets or liabilities.

A122. The auditor also may develop a point estimate or range for only part of the accounting estimate (for example, for a particular assumption, or when only a certain part of the accounting estimate is giving rise to the risk of material misstatement).

A123. When using the auditor's own methods, assumptions or data to develop a point estimate or range, the auditor may obtain evidence about the appropriateness of management's methods, assumptions or data. For example, if the auditor uses the auditor's own assumptions in developing a range to evaluate the reasonableness of management's point estimate, the auditor may also develop a view about whether management's judgements in selecting the significant assumptions used in making the accounting estimate give rise to indicators of possible management bias.

A124. The requirement in paragraph 29(a) for the auditor to determine that the range includes only amounts that are supported by sufficient appropriate audit evidence does not mean that the auditor is expected to obtain audit evidence to support each possible outcome in the range individually. Rather, the auditor is likely to obtain evidence to determine that the points at both ends of the range are reasonable in the circumstances, thereby supporting that amounts falling between those two points also are reasonable.

ISA (NZ) 540 (Revised)

A125. The size of the auditor's range may be multiples of materiality for the financial statements as a whole, particularly when materiality is based on operating results (for example, pre-tax income) and this measure is relatively small in relation to assets or other balance sheet measures. This situation is more likely to arise in circumstances when the estimation uncertainty associated with the accounting estimate is itself multiples of materiality, which is more common for certain types of accounting estimates or in certain industries, such as insurance or banking, where a high degree of estimation uncertainty is more typical and there may be specific requirements in the applicable financial reporting framework in that regard. Based on the procedures performed and audit evidence obtained in accordance with the requirements of this ISA (NZ), the auditor may conclude that a range that is multiples of materiality is, in the auditor's judgement, appropriate in the circumstances. When this is the case, the auditor's evaluation of the reasonableness of the disclosures about estimation uncertainty becomes increasingly important, particularly whether such disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes. Paragraphs A139–A144 include additional considerations that may be relevant in these circumstances.

Other Considerations Relating to Audit Evidence (Ref: Para. 30)

A126. Information to be used as audit evidence, regarding risks of material misstatement relating to accounting estimates, may have been produced by the entity, prepared using the work of a management's expert, or provided by an external information source.

External Information Sources

A127. As explained in ISA (NZ) 500,⁶⁰ the reliability of information from an external information source is influenced by its source, its nature, and the circumstances under which it is obtained. Consequently, the nature and extent of the auditor's further audit procedures to consider the reliability of the information used in making an accounting estimate may vary depending on the nature of these factors. For example:

- When market or industry data, prices, or pricing related data, are obtained from a single external information source, specialising in such information, the auditor may seek a price from an alternative independent source with which to compare.
- When market or industry data, prices, or pricing related data, are obtained from multiple independent external information sources and points to consensus across those sources, the auditor may need to obtain less evidence about the reliability of the data from an individual source.
- When information obtained from multiple information sources points to divergent market views the auditor may seek to understand the reasons for the diversity in views. The diversity may result from the use of different methods, assumptions, or data. For example, one source may be using current prices and another source using future prices. When the diversity relates to estimation uncertainty, the auditor is required by paragraph 26(b) to obtain sufficient appropriate audit evidence about whether, in the context of the applicable financial reporting framework, the disclosures in the financial statements that describe the estimation uncertainty are reasonable. In such cases professional judgement is also important in considering information about the methods, assumptions or data applied.

⁶⁰ ISA (NZ) 500, Paragraph A35

ISA (NZ) 540 (Revised)

- When information obtained from an external information source has been developed by that source using its own model(s). Paragraph A43 of ISA (NZ) 500 provides relevant guidance.

A128. For fair value accounting estimates, additional considerations of the relevance and reliability of information obtained from external information sources may include:

- (a) Whether fair values are based on trades of the same instrument or active market quotations;
- (b) When the fair values are based on transactions of comparable assets or liabilities, how those transactions are identified and considered comparable;
- (c) When there are no transactions either for the asset or liability or comparable assets or liabilities, how the information was developed including whether the inputs developed and used represent the assumptions that market participants would use when pricing the asset or liability, if applicable; and
- (d) When the fair value measurement is based on a broker quote, whether the broker quote:
 - (i) Is from a market maker who transacts in the same type of financial instrument;
 - (ii) Is binding or nonbinding, with more weight placed on quotes based on binding offers; and
 - (iii) Reflects market conditions as of the date of the financial statements, when required by the applicable financial reporting framework.

A129. When information from an external information source is used as audit evidence, a relevant consideration for the auditor may be whether information can be obtained, or whether the information is sufficiently detailed, to understand the methods, assumptions and other data used by the external information source. This may be limited in some respects and consequently influence the auditor's consideration of the nature, timing and extent of procedures to perform. For example, pricing services often provide information about their methods and assumptions by asset class rather than individual securities. Brokers often provide only limited information about their inputs and assumptions when providing broker indicative quotes for individual securities. Paragraph A44 of ISA (NZ) 500 provides guidance with respect to restrictions placed by the external information source on the provision of supporting information.

Management's Expert

A130. Assumptions relating to accounting estimates that are made or identified by a management's expert become management's assumptions when used by management in making an accounting estimate. Accordingly, the auditor applies the relevant requirements in this ISA (NZ) to those assumptions.

A131. If the work of a management's expert involves the use of methods or sources of data relating to accounting estimates, or developing or providing findings or conclusions relating to a point estimate or related disclosures for inclusion in the financial statements, the requirements in paragraphs 21–29 of this ISA (NZ) may assist the auditor in applying paragraph 8(c) of ISA (NZ) 500.

ISA (NZ) 540 (Revised)

Service Organisations

A132. ISA (NZ) 402⁶¹ deals with the auditor's understanding of the services provided by a service organisation, including internal control, as well as the auditor's responses to assessed risks of material misstatement. When the entity uses the services of a service organisation in making accounting estimates, the requirements and guidance in ISA (NZ) 402 may therefore assist the auditor in applying the requirements of this ISA (NZ).

Indicators of Possible Management Bias (Ref: Para. 32)

A133. Management bias may be difficult to detect at an account level and may only be identified by the auditor when considering groups of accounting estimates, all accounting estimates in aggregate, or when observed over a number of accounting periods. For example, if accounting estimates included in the financial statements are considered to be individually reasonable but management's point estimates consistently trend toward one end of the auditor's range of reasonable outcomes that provide a more favourable financial reporting outcome for management, such circumstances may indicate possible bias by management.

A134. Examples of indicators of possible management bias with respect to accounting estimates include:

- Changes in an accounting estimate, or the method for making it, when management has made a subjective assessment that there has been a change in circumstances.
- Selection or development of significant assumptions or the data that yield a point estimate favourable for management objectives.
- Selection of a point estimate that may indicate a pattern of optimism or pessimism.

When such indicators are identified, there may be a risk of material misstatement either at the assertion or financial statement level. Indicators of possible management bias themselves do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. However, in some cases the audit evidence may point to a misstatement rather than simply an indicator of management bias.

A135. Indicators of possible management bias may affect the auditor's conclusion as to whether the auditor's risk assessment and related responses remain appropriate. The auditor may also need to consider the implications for other aspects of the audit,⁶² including the need to further question the appropriateness of management's judgements in making accounting estimates. Further, indicators of possible management bias may affect the auditor's conclusion as to whether the financial statements as a whole are free from material misstatement, as discussed in ISA (NZ) 700 (Revised).⁶³

A136. In addition, in applying ISA (NZ) 240, the auditor is required to evaluate whether management's judgements and decisions in making the accounting estimates included in the financial statements, even if they are individually reasonable, are ~~indicate~~ indicators of possible management bias that may represent a material misstatement due to fraud.⁶⁴ Fraudulent financial reporting is often accomplished through intentional misstatement of accounting estimates, which may include intentionally understating or overstating

⁶¹ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

⁶² [ISA \(NZ\) 570, paragraphs A68-A71](#)

⁶³ ISA (NZ) 700 (Revised), paragraph 11

⁶⁴ ISA (NZ) 240, paragraphs ~~33(b)~~[50-51](#)

ISA (NZ) 540 (Revised)

accounting estimates. Indicators of possible management bias that may also be a fraud risk factor, may cause the auditor to reassess whether the auditor's risk assessments, in particular the assessment of [risks of material misstatement due to fraud risks](#), and related responses remain appropriate.

Overall Evaluation Based on Audit Procedures Performed (Ref: Para. 33)

A137. As the auditor performs planned audit procedures, the audit evidence obtained may cause the auditor to modify the nature, timing or extent of other planned audit procedures.⁶⁵ In relation to accounting estimates, information may come to the auditor's attention through performing procedures to obtain audit evidence that differs significantly from the information on which the risk assessment was based. For example, the auditor may have identified that the only reason for an assessed risk of material misstatement is the subjectivity involved in making the accounting estimate. However, while performing procedures to respond to the assessed risks of material misstatement, the auditor may discover that the accounting estimate is more complex than originally contemplated, which may call into question the assessment of the risk of material misstatement (for example, the inherent risk may need to be re-assessed on the higher end of the spectrum of inherent risk due to the effect of complexity) and therefore the auditor may need to perform additional further audit procedures to obtain sufficient appropriate audit evidence.⁶⁶

A138. With respect to accounting estimates that have not been recognised, a particular focus of the auditor's evaluation may be on whether the recognition criteria of the applicable financial reporting framework have in fact been met. When an accounting estimate has not been recognised, and the auditor concludes that this treatment is appropriate, some financial reporting frameworks may require disclosure of the circumstances in the notes to the financial statements.

Determining Whether the Accounting Estimates are Reasonable or Misstated (Ref: Para. 9, 35)

A139. In determining whether, based on the audit procedures performed and evidence obtained, management's point estimate and related disclosures are reasonable, or are misstated:

- When the audit evidence supports a range, the size of the range may be wide and, in some circumstances, may be multiples of materiality for the financial statements as a whole (see also paragraph A125). Although a wide range may be appropriate in the circumstances, it may indicate that it is important for the auditor to reconsider whether sufficient appropriate audit evidence has been obtained regarding the reasonableness of the amounts within the range.
- The audit evidence may support a point estimate that differs from management's point estimate. In such circumstances, the difference between the auditor's point estimate and management's point estimate constitutes a misstatement.
- The audit evidence may support a range that does not include management's point estimate. In such circumstances, the misstatement is the difference between management's point estimate and the nearest point of the auditor's range.

⁶⁵ ISA (NZ) 330, paragraph A62

⁶⁶ See also ISA (NZ) 315 (Revised 2019), paragraph 37

ISA (NZ) 540 (Revised)

- A140. Paragraphs A110–A114 provide guidance to assist the auditor in evaluating management’s selection of a point estimate and related disclosures to be included in the financial statements.
- A141. When the auditor’s further audit procedures include testing how management made the accounting estimate or developing an auditor’s point estimate or range, the auditor is required to obtain sufficient appropriate audit evidence about disclosures that describe estimation uncertainty in accordance with paragraphs 26(b) and 29(b) and other disclosures in accordance with paragraph 31. The auditor then considers the audit evidence obtained about disclosures as part of the overall evaluation, in accordance with paragraph 35, of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.
- A142. ISA (NZ) 450 also provides guidance regarding qualitative disclosures⁶⁷ and when misstatements in disclosures could be indicative of fraud.⁶⁸
- A143. When the financial statements are prepared in accordance with a fair presentation framework, the auditor’s evaluation as to whether the financial statements achieve fair presentation⁶⁹ includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the transactions and events in a manner that achieves fair presentation. For example, when an accounting estimate is subject to a higher degree of estimation uncertainty, the auditor may determine that additional disclosures are necessary to achieve fair presentation. If management does not include such additional disclosures, the auditor may conclude that the financial statements are materially misstated.
- A144. ISA (NZ) 705 (Revised)⁷⁰ provides guidance on the implications for the auditor’s opinion when the auditor believes that management’s disclosures in the financial statements are inadequate or misleading, including, for example, with respect to estimation uncertainty.

Written Representations (Ref: Para. 37)

- A145. Written representations about specific accounting estimates may include representations:
- That the significant judgements made in making the accounting estimates have taken into account all relevant information of which management is aware.
 - About the consistency and appropriateness in the selection or application of the methods, assumptions and data used by management in making the accounting estimates.
 - That the assumptions appropriately reflect management’s intent and ability to carry out specific courses of action on behalf of the entity, when relevant to the accounting estimates and disclosures.
 - That disclosures related to accounting estimates, including disclosures describing estimation uncertainty, are complete and are reasonable in the context of the applicable financial reporting framework.

⁶⁷ ISA (NZ) 450, paragraph A187

⁶⁸ ISA (NZ) 450, paragraph A232

⁶⁹ ISA (NZ) 700 (Revised), paragraph 14

⁷⁰ ISA (NZ) 705 (Revised), paragraphs 22–23

ISA (NZ) 540 (Revised)

- That appropriate specialised skills or expertise has been applied in making the accounting estimates.
- That no subsequent event requires adjustment to the accounting estimates and related disclosures included in the financial statements.
- When accounting estimates are not recognised or disclosed in the financial statements, about the appropriateness of management's decision that the recognition or disclosure criteria of the applicable financial reporting framework have not been met.

Communication with Those Charged With Governance, Management or Other Relevant Parties (Ref: Para. 38)

A146. In applying ISA (NZ) 260 (Revised), the auditor communicates with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices relating to accounting estimates and related disclosures.⁷¹ Appendix 2 includes matters specific to accounting estimates that the auditor may consider communicating to those charged with governance.

A147. ISA (NZ) 265 requires the auditor to communicate in writing to those charged with governance significant deficiencies in internal control identified during the audit.⁷² Such significant deficiencies may include those related to controls over:

- The selection and application of significant accounting policies, and the selection and application of methods, assumptions and data;
- Risk management and related systems;
- Data integrity, including when data is obtained from an external information source; and
- The use, development and validation of models, including models obtained from an external provider, and any adjustments that may be required.

A148. In addition to communicating with those charged with governance, the auditor may be permitted or required to communicate directly with regulators or prudential supervisors. Such communication may be useful throughout the audit or at particular stages, such as when planning the audit or when finalising the auditor's report. For example, in some jurisdictions, financial institution regulators seek to cooperate with auditors to share information about the operation and application of controls over financial instrument activities, challenges in valuing financial instruments in inactive markets, expected credit losses, and insurance reserves while other regulators may seek to understand the auditor's views on significant aspects of the entity's operations including the entity's costs estimates. This communication may be helpful to the auditor in identifying, assessing and responding to risks of material misstatement.

Documentation (Ref: Para. 39)

A149. ISA (NZ) 315 (Revised 2019)⁷³ and ISA (NZ) 330⁷⁴ provide requirements and guidance on documenting the auditor's understanding of the entity, risk assessments and responses to assessed risks. This guidance is based on the requirements and guidance in

⁷¹ ISA (NZ) 260 (Revised), paragraph 16(a)

⁷² ISA (NZ) 265, paragraph 9

⁷³ ISA (NZ) 315 (Revised 2019), paragraphs 38 and A237-A241

⁷⁴ ISA (NZ) 330, paragraphs 28 and A65

ISA (NZ) 540 (Revised)

ISA (NZ) 230.⁷⁵ In the context of auditing accounting estimates, the auditor is required to prepare audit documentation about key elements of the auditor's understanding of the entity and its environment related to accounting estimates. In addition, the auditor's judgements about the assessed risks of material misstatement related to accounting estimates, and the auditor's responses, may likely be further supported by documentation of communications with those charged with governance and management.

A150. In documenting the linkage of the auditor's further audit procedures with the assessed risks of material misstatement at the assertion level, in accordance with ISA (NZ) 330, this ISA (NZ) requires that the auditor take into account the reasons given to the risks of material misstatement at the assertion level. Those reasons may relate to one or more inherent risk factors or the auditor's assessment of control risk. However, the auditor is not required to document how every inherent risk factor was taken into account in identifying and assessing the risks of material misstatement in relation to each accounting estimate.

A151. The auditor also may consider documenting:

- When management's application of the method involves complex modelling, whether management's judgements have been applied consistently and, when applicable, that the design of the model meets the measurement objective of the applicable financial reporting framework.
- When the selection and application of methods, significant assumptions, or the data is affected by complexity to a higher degree, the auditor's judgements in determining whether specialised skills or knowledge are required to perform the risk assessment procedures, to design and perform procedures responsive to those risks, or to evaluate the audit evidence obtained. In these circumstances, the documentation also may include how the required skills or knowledge were applied.

A152. Paragraph NZA7.1 of ISA (NZ) 230 notes that, although there may be no single way in which the auditor's exercise of professional scepticism is documented, the audit documentation may nevertheless provide evidence of the auditor's exercise of professional scepticism. For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, the documentation may include how the auditor evaluated that evidence, including the professional judgements made in forming a conclusion as to the sufficiency and appropriateness of the audit evidence obtained. Examples of other requirements in this ISA (NZ) for which documentation may provide evidence of the exercise of professional scepticism by the auditor include:

- Paragraph 13(d), regarding how the auditor has applied an understanding in developing the auditor's own expectation of the accounting estimates and related disclosures to be included in the entity's financial statements and how that expectation compares with the entity's financial statements prepared by management;
- Paragraph 18, which requires further audit procedures to be designed and performed to obtain sufficient appropriate evidence in a manner that is not biased toward obtaining audit evidence that may be corroborative or towards excluding audit evidence that may be contradictory;

⁷⁵ ISA (NZ) 230, paragraph 8(c)

ISA (NZ) 540 (Revised)

- Paragraphs 23(b), 24(b), 25(b) and 32, which address indicators of possible management bias; and
- Paragraph 34, which addresses the auditor's consideration of all relevant audit evidence, whether corroborative or contradictory.

ISA (NZ) 540 (Revised)**Appendix 1**

(Ref: Para. 2, 4, 12(c), A8, A66)

Inherent Risk Factors**Introduction**

1. In identifying, assessing and responding to the risks of material misstatement at the assertion level for an accounting estimate and related disclosures, this ISA (NZ) requires the auditor to take into account the degree to which the accounting estimate is subject to estimation uncertainty, and the degree to which the selection and application of the methods, assumptions and data used in making the accounting estimate, and the selection of management's point estimate and related disclosures for inclusion in the financial statements, are affected by complexity, subjectivity or other inherent risk factors.
2. Inherent risk related to an accounting estimate is the susceptibility of an assertion about the accounting estimate to material misstatement, before consideration of controls. Inherent risk results from inherent risk factors, which give rise to challenges in appropriately making the accounting estimate. This Appendix provides further explanation about the nature of the inherent risk factors of estimation uncertainty, subjectivity and complexity, and their inter-relationships, in the context of making accounting estimates and selecting management's point estimate and related disclosures for inclusion in the financial statements.

Measurement Basis

3. The measurement basis and the nature, condition and circumstances of the financial statement item give rise to relevant valuation attributes. When the cost or price of the item cannot be directly observed, an accounting estimate is required to be made by applying an appropriate method and using appropriate data and assumptions. The method may be specified by the applicable financial reporting framework, or is selected by management, to reflect the available knowledge about how the relevant valuation attributes would be expected to influence the cost or price of the item on the measurement basis.

Estimation Uncertainty

4. Susceptibility to a lack of precision in measurement is often referred to in accounting frameworks as measurement uncertainty. Estimation uncertainty is defined in this ISA (NZ) as susceptibility to an inherent lack of precision in measurement. It arises when the required monetary amount for a financial statement item that is recognised or disclosed in the financial statements cannot be measured with precision through direct observation of the cost or price. When direct observation is not possible, the next most precise alternative measurement strategy is to apply a method that reflects the available knowledge about cost or price for the item on the relevant measurement basis, using observable data about relevant valuation attributes.
5. However, constraints on the availability of such knowledge or data may limit the verifiability of such inputs to the measurement process and therefore limit the precision of measurement outcomes. Furthermore, most accounting frameworks acknowledge that there are practical constraints on the information that should be taken into account, such as when the cost of obtaining it would exceed the benefits. The lack of precision in measurement arising from these constraints is inherent because it cannot be eliminated from the measurement process. Accordingly, such constraints are sources of estimation

ISA (NZ) 540 (Revised)

uncertainty. Other sources of measurement uncertainty that may occur in the measurement process are, at least in principle, capable of elimination if the method is applied appropriately and therefore are sources of potential misstatement rather than estimation uncertainty.

6. When estimation uncertainty relates to uncertain future inflows or outflows of economic benefits that will ultimately result from the underlying asset or liability, the outcome of these flows will only be observable after the date of the financial statements. Depending on the nature of the applicable measurement basis and on the nature, condition and circumstances of the financial statement item, this outcome may be directly observable before the financial statements are finalised or may only be directly observable at a later date. For some accounting estimates, there may be no directly observable outcome at all.
7. Some uncertain outcomes may be relatively easy to predict with a high level of precision for an individual item. For example, the useful life of a production machine may be easily predicted if sufficient technical information is available about its average useful life. When it is not possible to predict a future outcome, such as an individual's life expectancy based on actuarial assumptions, with reasonable precision, it may still be possible to predict that outcome for a group of individuals with greater precision. Measurement bases may, in some cases, indicate a portfolio level as the relevant unit of account for measurement purposes, which may reduce inherent estimation uncertainty.

Complexity

8. Complexity (i.e., the complexity inherent in the process of making an accounting estimate, before consideration of controls) gives rise to inherent risk. Inherent complexity may arise when:
 - There are many valuation attributes with many or non-linear relationships between them.
 - Determining appropriate values for one or more valuation attributes requires multiple data sets.
 - More assumptions are required in making the accounting estimate, or when there are correlations between the required assumptions.
 - The data used is inherently difficult to identify, capture, access or understand.
9. Complexity may be related to the complexity of the method and of the computational process or model used to apply it. For example, complexity in the model may reflect the need to apply probability-based valuation concepts or techniques, option pricing formulae or simulation techniques to predict uncertain future outcomes or hypothetical behaviours. Similarly, the computational process may require data from multiple sources, or multiple data sets to support the making of an assumption or the application of sophisticated mathematical or statistical concepts.
10. The greater the complexity, the more likely it is that management will need to apply specialised skills or knowledge in making an accounting estimate or engage a management's expert, for example in relation to:
 - Valuation concepts and techniques that could be used in the context of the measurement basis and objectives or other requirements of the applicable financial reporting framework and how to apply those concepts or techniques;

ISA (NZ) 540 (Revised)

- The underlying valuation attributes that may be relevant given the nature of the measurement basis and the nature, condition and circumstances of the financial statement items for which accounting estimates are being made; or
 - Identifying appropriate sources of data from internal sources (including from sources outside the general or subsidiary ledgers) or from external information sources, determining how to address potential difficulties in obtaining data from such sources or in maintaining its integrity in applying the method, or understanding the relevance and reliability of that data.
11. Complexity relating to data may arise, for example, in the following circumstances:
- (a) When data is difficult to obtain or when it relates to transactions that are not generally accessible. Even when such data is accessible, for example through an external information source, it may be difficult to consider the relevance and reliability of the data, unless the external information source discloses adequate information about the underlying data sources it has used and about any data processing that has been performed.
 - (b) When data reflecting an external information source's views about future conditions or events, which may be relevant in developing support for an assumption, is difficult to understand without transparency about the rationale and information taken into account in developing those views.
 - (c) When certain types of data are inherently difficult to understand because they require an understanding of technically complex business or legal concepts, such as may be required to properly understand data that comprises the terms of legal agreements about transactions involving complex financial instruments or insurance products.

Subjectivity

12. Subjectivity (i.e., the subjectivity inherent in the process of making an accounting estimate, before consideration of controls) reflects inherent limitations in the knowledge or data reasonably available about valuation attributes. When such limitations exist, the applicable financial reporting framework may reduce the degree of subjectivity by providing a required basis for making certain judgements. Such requirements may, for example, set explicit or implied objectives relating to measurement, disclosure, the unit of account, or the application of a cost constraint. The applicable financial reporting framework may also highlight the importance of such judgements through requirements for disclosures about those judgements.
13. Management judgement is generally needed in determining some or all of the following matters, which often involve subjectivity:
- To the extent not specified under the requirements of the applicable financial reporting framework, the appropriate valuation approaches, concepts, techniques and factors to use in the estimation method, having regard to available knowledge;
 - To the extent valuation attributes are observable when there are various potential sources of data, the appropriate sources of data to use;
 - To the extent valuation attributes are not observable, the appropriate assumptions or range of assumptions to make, having regard to the best available data, including, for example, market views;

ISA (NZ) 540 (Revised)

- The range of reasonably possible outcomes from which to select management's point estimate, and the relative likelihood that certain points within that range would be consistent with the objectives of the measurement basis required by the applicable financial reporting framework; and
 - The selection of management's point estimate, and the related disclosures to be made, in the financial statements.
14. Making assumptions about future events or conditions involves the use of judgement, the difficulty of which varies with the degree to which those events or conditions are uncertain. The precision with which it is possible to predict uncertain future events or conditions depends on the degree to which those events or conditions are determinable based on knowledge, including knowledge of past conditions, events and related outcomes. The lack of precision also contributes to estimation uncertainty, as described above.
 15. With respect to future outcomes, assumptions will only need to be made for those features of the outcome that are uncertain. For example, in considering the measurement of a possible impairment of a receivable for a sale of goods at the balance sheet date, the amount of the receivable may be unequivocally established and directly observable in the related transaction documents. What may be uncertain is the amount, if any, for loss due to impairment. In this case, assumptions may only be required about the likelihood of loss and about the amount and timing of any such loss.
 16. However, in other cases, the amounts of cash flows embodied in the rights relating to an asset may be uncertain. In those cases, assumptions may have to be made about both the amounts of the underlying rights to cash flows and about potential losses due to impairment.
 17. It may be necessary for management to consider information about past conditions and events, together with current trends and expectations about future developments. Past conditions and events provide historical information that may highlight repeating historical patterns that can be extrapolated in evaluating future outcomes. Such historical information may also indicate changing patterns of such behaviour over time (cycles or trends). These may suggest that the underlying historical patterns of behaviour have been changing in somewhat predictable ways that may also be extrapolated in evaluating future outcomes. Other types of information may also be available that indicate possible changes in historical patterns of such behaviour or in related cycles or trends. Difficult judgements may be needed about the predictive value of such information.
 18. The extent and nature (including the degree of subjectivity involved) of the judgements taken in making the accounting estimates may create opportunity for management bias in making decisions about the course of action that, according to management, is appropriate in making the accounting estimate. When there is also a high level of complexity or a high level of estimation uncertainty, or both, the risk of, and opportunity for, management bias or fraud may also be increased.

Relationship of Estimation Uncertainty to Subjectivity and Complexity

19. Estimation uncertainty gives rise to inherent variation in the possible methods, data sources and assumptions that could be used to make an accounting estimate. This gives rise to subjectivity, and hence, the need for the use of judgement in making the accounting estimate. Such judgements are required in selecting the appropriate methods and data sources, in making the assumptions, and in selecting management's point estimate and

ISA (NZ) 540 (Revised)

related disclosures for inclusion in the financial statements. These judgements are made in the context of the recognition, measurement, presentation and disclosure requirements of the applicable financial reporting framework. However, because there are constraints on the availability and accessibility of knowledge or information to support these judgements, they are subjective in nature.

20. Subjectivity in such judgements creates the opportunity for unintentional or intentional management bias in making them. Many accounting frameworks require that information prepared for inclusion in the financial statements should be neutral (i.e., that it should not be biased). Given that bias can, at least in principle, be eliminated from the estimation process, sources of potential bias in the judgements made to address subjectivity are sources of potential misstatement rather than sources of estimation uncertainty.
21. The inherent variation in the possible methods, data sources and assumptions that could be used to make an accounting estimate (see paragraph 19) also gives rise to variation in the possible measurement outcomes. The size of the range of reasonably possible measurement outcomes results from the degree of estimation uncertainty and is often referred to as the sensitivity of the accounting estimate. In addition to determining measurement outcomes, an estimation process also involves analysing the effect of inherent variations in the possible methods, data sources and assumptions on the range of reasonably possible measurement outcomes (referred to as sensitivity analysis).
22. Developing a financial statement presentation for an accounting estimate, which, when required by the applicable financial reporting framework, achieves faithful representation (i.e., complete, neutral and free from error) includes making appropriate judgements in selecting a management point estimate that is appropriately chosen from within the range of reasonably possible measurement outcomes and related disclosures that appropriately describe the estimation uncertainty. These judgements may themselves involve subjectivity, depending on the nature of the requirements in the applicable financial reporting framework that address these matters. For example, the applicable financial reporting framework may require a specific basis (such as a probability weighted average or a best estimate) for the selection of the management point estimate. Similarly, it may require specific disclosures or disclosures that meet specified disclosure objectives or additional disclosures that are required to achieve fair presentation in the circumstances.
23. Although an accounting estimate that is subject to a higher degree of estimation uncertainty may be less precisely measurable than one subject to a lower degree of estimation uncertainty, the accounting estimate may still have sufficient relevance for users of the financial statements to be recognised in the financial statements if, when required by the applicable financial reporting framework, a faithful representation of the item can be achieved. In some cases, estimation uncertainty may be so great that the recognition criteria in the applicable financial reporting framework are not met and the accounting estimate cannot be recognised in the financial statements. Even in these circumstances, there may still be relevant disclosure requirements, for example to disclose the point estimate or range of reasonably possible measurement outcomes and information describing the estimation uncertainty and constraints in recognising the item. The requirements of the applicable financial reporting framework that apply in these circumstances may be specified to a greater or lesser degree. Accordingly, in these circumstances, there may be additional judgements that involve subjectivity to be made.

ISA (NZ) 540 (Revised)**Appendix 2**

(Ref: Para. A146)

Communications with Those Charged with Governance

Matters that the auditor may consider communicating with those charged with governance with respect to the auditor's views about significant qualitative aspects of the entity's accounting practices related to accounting estimates and related disclosures include:

- (a) How management identifies transactions, other events and conditions that may give rise to the need for, or changes in, accounting estimates and related disclosures.
- (b) Risks of material misstatement.
- (c) The relative materiality of the accounting estimates to the financial statements as a whole;
- (d) Management's understanding (or lack thereof) regarding the nature and extent of, and the risks associated with, accounting estimates;
- (e) Whether management has applied appropriate specialised skills or knowledge or engaged appropriate experts.
- (f) The auditor's views about differences between the auditor's point estimate or range and management's point estimate.
- (g) The auditor's views about the appropriateness of the selection of accounting policies related to accounting estimates and presentation of accounting estimates in the financial statements.
- (h) Indicators of possible management bias.
- (i) Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates
- (j) When there has been a change from the prior period in the methods for making the accounting estimate, why, as well as the outcome of accounting estimates in prior periods.
- (k) Whether management's methods for making the accounting estimates, including when management has used a model, are appropriate in the context of the measurement objectives, the nature, conditions and circumstances, and other requirements of the applicable financial reporting framework.
- (l) The nature and consequences of significant assumptions used in accounting estimates and the degree of subjectivity involved in the development of the assumptions;
- (m) Whether significant assumptions are consistent with each other and with those used in other accounting estimates, or with assumptions used in other areas of the entity's business activities.
- (n) When relevant to the appropriateness of the significant assumptions or the appropriate application of the applicable financial reporting framework, whether management has the intent to carry out specific courses of action and has the ability to do so.
- (o) How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.

ISA (NZ) 540 (Revised)

- (p) Whether the data and significant assumptions used by management in making the accounting estimates are appropriate in the context of the applicable financial reporting framework.
- 2. The relevance and reliability of information obtained from an external information source.
- (q) Significant difficulties encountered when obtaining sufficient appropriate audit evidence relating to data obtained from an external information source or valuations performed by management or a management's expert.
- (r) Significant differences in judgements between the auditor and management or a management's expert regarding valuations.
- (s) The potential effects on the entity's financial statements of material risks and exposures required to be disclosed in the financial statements, including the estimation uncertainty associated with accounting estimates.
- (t) The reasonableness of disclosures about estimation uncertainty in the financial statements.
- (u) Whether management's decisions relating to the recognition, measurement, presentation and disclosure of the accounting estimates and related disclosures in the financial statements are in accordance with the applicable financial reporting framework.

ISA (NZ) 540 (Revised)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

[This conformity statement is not part of the standard.](#)

~~This conformity statement accompanies but is not part of ISA (NZ) 540 (Revised).~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing (ISA) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, issued by the International Auditing and Assurance Standards Board (~~IAASB~~), ~~an independent standard-setting board of the International Federation of Accountants (IFAC)~~.

Paragraphs that have been [amended or](#) added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 540.

Comparison with Australian Auditing Standards

This section will be completed after the AUASB issues its revised standard.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 540 (Revised)</u> <u><i>Auditing Accounting Estimates and Related Disclosures</i></u>

<u>Principal or amendment</u>	<u>Principal</u>

<u>Consolidated version</u>	<u>No</u>

<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>

<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>

<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>

<u>Administering agency</u>	<u>External Reporting Board</u>

<u>Date made</u>	<u>24 October 2025</u>

<u>Publication date</u>	<u>30 October 2025</u>

<u>Notification date</u>	<u>30 October 2025</u>

<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>

<u>End date</u>	<u>Not applicable</u>

<u>Consolidation as at date</u>	<u>Not applicable</u>

<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 550

Related Parties ~~(ISA (NZ) 550)~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including June 2022.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 550 issued by the External Reporting Board in July 2011.

COPYRIGHT

© External Reporting Board (“XRB”) 2011

~~This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.~~

~~Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz~~

~~All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org~~

ISBN 978-1-927174-21-0

Explanatory note

This note is not part of the **Standard**.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 550 *Related Parties* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 550 issued by the External Reporting Board in July 2011 (as amended to June 2022).

The revision of ISA (NZ) 550 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the **Standard**.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This **Standard** reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board ("IAASB"). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 550**INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 550****RELATED PARTIES***Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1
Nature of Related Party Relationships and Transactions	2
Responsibilities of the Auditor	3-7
Effective Date	8
Objectives	9
Definitions	10
Requirements	
Risk Assessment Procedures and Related Activities	11-17
Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions	18-19
Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions	20-24
Evaluation of the Accounting for and Disclosure of Identified Related Party Relationships and Transactions	25
Written Representations	26
Communication with Those Charged with Governance	27
Documentation	28
Application and Other Explanatory Material	
Responsibilities of the Auditor	A1-A3
Definition of a Related Party	A4-A7
Risk Assessment Procedures and Related Activities	A8-A28
Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions	A29-A30
Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions	A31-A45

ISA (NZ) 550

Evaluation of the Accounting for and Disclosure of Identified Related Party Relationships and Transactions	A46-A47
Written Representations	A48-A49
Communication with Those Charged with Governance	A50
<i>Accompanying Attachment: Conformity to the International Standards on Auditing</i>	

International Standard on Auditing (New Zealand) (ISA (NZ)) 550, “*Related Parties*” should be read in conjunction with ISA (NZ) 200, “*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.”

ISA (NZ) 550

History of Amendments

Table of pronouncements – ISA (NZ) 550 *Related Parties*

This table lists the pronouncements establishing and amending ISA (NZ) 550.

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 550	<u>October 2025</u> <u>July 2011</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.</u>
~~International Standard on Auditing (New Zealand) 610 (Revised 2013)~~ ~~Using the Work of Internal Auditors~~	~~April 2013~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2013.~~
~~Use of management and those charged with governance~~	~~Dec 2013~~	~~Effective for audits of financial statements for periods beginning on or after 1 July 2014.~~
~~Amendments to Standards Issued by the NZAuASB: Annual Improvements 2016~~	~~October 2016~~	~~Effective 15 December 2016.~~
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)~~	~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~

Table of Amended Paragraphs in ISA (NZ) 550		
Paragraph affected	How affected	By...[date]
~~1, 11, 12, 18, A12, A15, A17, A22~~	~~Amended~~	~~ISA (NZ) 610 (Revised 2013) [April 2013]~~
~~Various~~	~~Amended~~	~~Use of management and those charged with governance~~
~~NZ1.2~~	~~Amended~~	~~Amendments to Standards Issued by the NZAuASB: Annual Improvements 2016 [Oct 2016]~~

ISA (NZ) 550

Table of Amended Paragraphs in ISA (NZ) 550		
1, 11, 12, 18, A9, A12, A17, A20, A28, A34 Footnotes 1, 7-9, 18, 21	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)
A13, A38, Footnote 19	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating to related party relationships and transactions in an audit of financial statements. Specifically, it expands on how ISA (NZ) 315 (Revised 2019),² ISA (NZ) 330,³ and ISA (NZ) 240⁴ are to be applied in relation to risks of material misstatement associated with related party relationships and transactions.
- NZ1.1 For the purposes of this ISA (NZ), a reference to "management" is taken to mean "management, and where appropriate, those charged with governance".
- NZ1.2 In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.

Nature of Related Party Relationships and Transactions

2. Many related party transactions are in the normal course of business. In such circumstances, they may carry no higher risk of material misstatement of the financial statements than similar transactions with unrelated parties. However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. For example:
 - Related parties may operate through an extensive and complex range of relationships and structures, with a corresponding increase in the complexity of related party transactions.
 - Information systems may be ineffective at identifying or summarising transactions and outstanding balances between an entity and its related parties.
 - Related party transactions may not be conducted under normal market terms and conditions; for example, some related party transactions may be conducted with no exchange of consideration.

Responsibilities of the Auditor

3. Because related parties are not independent of each other, many financial reporting frameworks establish specific accounting and disclosure requirements for related party relationships, transactions and balances to enable users of the financial statements to understand their nature and actual or potential effects on the financial statements. Where

² ISA (NZ) 315 (Revised 2019), *"Identifying and Assessing the Risks of Material Misstatement."*

³ ISA (NZ) 330, *"The Auditor's Responses to Assessed Risks."*

⁴ ISA (NZ) 240, *"The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements."*

ISA (NZ) 550

the applicable financial reporting framework establishes such requirements, the auditor has a responsibility to perform audit procedures to identify, assess and respond to the risks of material misstatement arising from the entity's failure to appropriately account for or disclose related party relationships, transactions or balances in accordance with the requirements of the framework.

4. Even if the applicable financial reporting framework establishes minimal or no related party requirements, the auditor nevertheless needs to obtain an understanding of the entity's related party relationships and transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions: (Ref: Para. A1)
 - (a) Achieve fair presentation (for fair presentation frameworks); or (Ref: Para. A2)
 - (b) Are not misleading (for compliance frameworks). (Ref: Para. A3)
5. In addition, an understanding of the entity's related party relationships and transactions is relevant to the auditor's evaluation of whether one or more fraud risk factors are present as required by ISA (NZ) 240,⁵ because fraud may be more easily committed through related parties.
6. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (NZ).⁶ In the context of related parties, the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for such reasons as the following:
 - Management may be unaware of the existence of all related party relationships and transactions, particularly if the applicable financial reporting framework does not establish related party requirements.
 - Related party relationships may present a greater opportunity for collusion, concealment or manipulation by management.
7. Planning and performing the audit with professional scepticism as required by ISA (NZ) 200⁷ is therefore particularly important in this context, given the potential for undisclosed related party relationships and transactions. The requirements in this ISA (NZ) are designed to assist the auditor in identifying and assessing the risks of material misstatement associated with related party relationships and transactions, and in designing audit procedures to respond to the assessed risks.

Effective Date

8. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011.~~[Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]

NZ 8.1 This Standard repeals ISA (NZ) 550 *Related Parties* issued in July 2011

⁵ ISA (NZ) 240, paragraph ~~25~~38.

⁶ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraphs ~~A61-53~~ --A62-54.

⁷ ISA (NZ) 200, paragraph ~~45~~17.

Objectives

9. The objectives of the auditor are:
 - (a) Irrespective of whether the applicable financial reporting framework establishes related party requirements, to obtain an understanding of related party relationships and transactions sufficient to be able:
 - (i) To recognise fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and
 - (ii) To conclude, based on the audit evidence obtained, whether the financial statements, insofar as they are affected by those relationships and transactions:
 - a. Achieve fair presentation (for fair presentation frameworks); or
 - b. Are not misleading (for compliance frameworks); and
 - (b) In addition, where the applicable financial reporting framework establishes related party requirements, to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements in accordance with the framework.

Definitions

10. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Arm's length transaction – A transaction conducted on such terms and conditions as between a willing buyer and a willing seller who are unrelated and are acting independently of each other and pursuing their own best interests.
 - (b) Related party – A party that is either: (Ref: Para. A4-A7)
 - (i) A related party as defined in the applicable financial reporting framework; or
 - (ii) Where the applicable financial reporting framework establishes minimal or no related party requirements:
 - a. A person or other entity that has control or significant influence, directly or indirectly through one or more intermediaries, over the reporting entity;
 - b. Another entity over which the reporting entity has control or significant influence, directly or indirectly through one or more intermediaries; or
 - c. Another entity that is under common control with the reporting entity through having:
 - i. Common controlling ownership;
 - ii. Owners who are close family members; or
 - iii. Common key management.

ISA (NZ) 550

However, entities that are under common control by a state (that is, a national, regional or local government) are not considered related unless they engage in significant transactions or share resources to a significant extent with one another.

Requirements

Risk Assessment Procedures and Related Activities

11. As part of the risk assessment procedures and related activities that ISA (NZ) 315 (Revised 2019) and ISA (NZ) 240 require the auditor to perform during the audit,⁸ the auditor shall perform the audit procedures and related activities set out in paragraphs 12-17 to obtain information relevant to identifying the risks of material misstatement associated with related party relationships and transactions. (Ref: Para. A8)

Understanding the Entity's Related Party Relationships and Transactions

12. The engagement team discussion that ISA (NZ) 315 (Revised 2019) and ISA (NZ) 240 require⁹ shall include specific consideration of the susceptibility of the financial statements to material misstatement due to fraud or error that could result from the entity's related party relationships and transactions. (Ref: Para. A9-A10)
13. The auditor shall enquire of management regarding:
 - (a) The identity of the entity's related parties, including changes from the prior period; (Ref: Para. A11-A14)
 - (b) The nature of the relationships between the entity and these related parties; and
 - (c) Whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions.
14. The auditor shall enquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to: (Ref: Para. A15-A20)
 - (a) Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework;
 - (b) Authorise and approve significant transactions and arrangements with related parties; and (Ref: Para. A21)
 - (c) Authorise and approve significant transactions and arrangements outside the normal course of business.

Maintaining Alertness for Related Party Information When Reviewing Records or Documents

15. During the audit, the auditor shall remain alert, when inspecting records or documents, for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. (Ref: Para. A22-A23)

⁸ ISA (NZ) 315 (Revised 2019), paragraph 13; and ISA (NZ) 240, paragraph ~~47~~26.

⁹ ISA (NZ) 315 (Revised 2019), paragraph 17; and ISA (NZ) 240, paragraph ~~46~~29.

ISA (NZ) 550

In particular, the auditor shall inspect the following for indications of the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor:

- (a) Bank and legal confirmations obtained as part of the auditor's procedures;
 - (b) Minutes of meetings of shareholders and of those charged with governance; and
 - (c) Such other records or documents as the auditor considers necessary in the circumstances of the entity.
16. If the auditor identifies significant transactions outside the entity's normal course of business when performing the audit procedures required by paragraph 15 or through other audit procedures, the auditor shall enquire of management about: (Ref: Para. A24-A25)
- (a) The nature of these transactions; and (Ref: Para. A26)
 - (b) Whether related parties could be involved. (Ref: Para. A27)

Sharing Related Party Information with the Engagement Team

17. The auditor shall share relevant information obtained about the entity's related parties with the other members of the engagement team. (Ref: Para. A28)

Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

18. In meeting the ISA (NZ) 315 (Revised 2019) requirement to identify and assess the risks of material misstatement,¹⁰ the auditor shall identify and assess the risks of material misstatement associated with related party relationships and transactions and determine whether any of those risks are significant risks. In making this determination, the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.
19. If the auditor identifies fraud risk factors (including circumstances relating to the existence of a related party with dominant influence) when performing the risk assessment procedures and related activities in connection with related parties, the auditor shall consider such information when identifying and assessing the risks of material misstatement due to fraud in accordance with ISA (NZ) 240. (Ref: Para. A6 and A29-A30)

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

20. As part of the ISA (NZ) 330 requirement that the auditor respond to assessed risks,¹¹ the auditor designs and performs further audit procedures to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement associated with related

¹⁰ ISA (NZ) 315 (Revised 2019), paragraph 32.

¹¹ ISA (NZ) 330, paragraphs 5-6.

ISA (NZ) 550

party relationships and transactions. These audit procedures shall include those required by paragraphs 21-24. (Ref: Para. A31-A34)

Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions

21. If the auditor identifies arrangements or information that suggests the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor, the auditor shall determine whether the underlying circumstances confirm the existence of those relationships or transactions.
22. If the auditor identifies related parties or significant related party transactions that management has not previously identified or disclosed to the auditor, the auditor shall:
 - (a) Promptly communicate the relevant information to the other members of the engagement team; (Ref: Para. A35)
 - (b) Where the applicable financial reporting framework establishes related party requirements:
 - (i) Request management to identify all transactions with the newly identified related parties for the auditor's further evaluation; and
 - (ii) Enquire as to why the entity's controls over related party relationships and transactions failed to enable the identification or disclosure of the related party relationships or transactions;
 - (c) Perform appropriate substantive audit procedures relating to such newly identified related parties or significant related party transactions; (Ref: Para. A36)
 - (d) Reconsider the risk that other related parties or significant related party transactions may exist that management has not previously identified or disclosed to the auditor, and perform additional audit procedures as necessary; and
 - (e) If the non-disclosure by management appears intentional (and therefore indicative of a risk of material misstatement due to fraud), evaluate the implications for the audit. (Ref: Para. A37)

Identified Significant Related Party Transactions outside the Entity's Normal Course of Business

23. For identified significant related party transactions outside the entity's normal course of business, the auditor shall:
 - (a) Inspect the underlying contracts or agreements, if any, and evaluate whether:
 - (i) The business rationale (or lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets;¹² (Ref: Para. A38-A39)
 - (ii) The terms of the transactions are consistent with management's explanations; and

¹² ISA (NZ) 240, paragraph ~~33(e)~~52.

ISA (NZ) 550

- (iii) The transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
- (b) Obtain audit evidence that the transactions have been appropriately authorised and approved. (Ref: Para. A40-A41)

Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction

24. If management has made an assertion in the financial statements to the effect that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction, the auditor shall obtain sufficient appropriate audit evidence about the assertion. (Ref: Para. A42-A45)

Evaluation of the Accounting for and Disclosure of Identified Related Party Relationships and Transactions

25. In forming an opinion on the financial statements in accordance with ISA (NZ) 700 (Revised),¹³ the auditor shall evaluate: (Ref: Para. A46)
- (a) Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and (Ref: Para. A47)
 - (b) Whether the effects of the related party relationships and transactions:
 - (i) Prevent the financial statements from achieving fair presentation (for fair presentation frameworks); or
 - (ii) Cause the financial statements to be misleading (for compliance frameworks).

Written Representations

26. [Amended by the NZAuASB.]

- NZ26.1 Where the applicable financial reporting framework establishes related party requirements, the auditor shall obtain written representations from those charged with governance that: (Ref: Para. A48-A49)
- (a) They have disclosed to the auditor the identity of the entity's related parties and all the related party relationships and transactions of which they are aware; and
 - (b) They have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the framework.

Communication with Those Charged with Governance

¹³ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 10-15.

ISA (NZ) 550

27. Unless all of those charged with governance are involved in managing the entity,¹⁴ the auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties. (Ref: Para. A50)

Documentation

28. The auditor shall include in the audit documentation the names of the identified related parties and the nature of the related party relationships.¹⁵

Application and Other Explanatory Material**Responsibilities of the Auditor**

Financial Reporting Frameworks That Establish Minimal Related Party Requirements (Ref: Para. 4)

- A1. An applicable financial reporting framework that establishes minimal related party requirements is one that defines the meaning of a related party but that definition has a substantially narrower scope than the definition set out in paragraph 10(b)(ii) of this ISA (NZ), so that a requirement in the framework to disclose related party relationships and transactions would apply to substantially fewer related party relationships and transactions.

Fair Presentation Frameworks (Ref: Para. 4(a))

- A2. In the context of a fair presentation framework,¹⁶ related party relationships and transactions may cause the financial statements to fail to achieve fair presentation if, for example, the economic reality of such relationships and transactions is not appropriately reflected in the financial statements. For instance, fair presentation may not be achieved if the sale of a property by the entity to a controlling shareholder at a price above or below fair market value has been accounted for as a transaction involving a profit or loss for the entity when it may constitute a contribution or return of capital or the payment of a dividend.

Compliance Frameworks (Ref: Para. 4(b))

- A3. In the context of a compliance framework, whether related party relationships and transactions cause the financial statements to be misleading as discussed in ISA (NZ) 700 (Revised) depends upon the particular circumstances of the engagement. For example, even if non-disclosure of related party transactions in the financial statements is in compliance with the framework and applicable law or regulation, the financial statements could be misleading if the entity derives a very substantial portion of its revenue from transactions with related parties, and that fact is not disclosed. However, it will be

¹⁴ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13.

¹⁵ ISA (NZ) 230, "Audit Documentation," paragraphs 8-11, and paragraph A6.

¹⁶ ISA (NZ) 200, paragraph 153(a), defines the meaning of fair presentation and compliance frameworks.

ISA (NZ) 550

extremely rare for the auditor to consider financial statements that are prepared and presented in accordance with a compliance framework to be misleading if in accordance with ISA (NZ) 210¹⁷ the auditor has determined that the framework is acceptable.¹⁸

Definition of a Related Party (Ref: Para. 10(b))

- A4. Many financial reporting frameworks discuss the concepts of control and significant influence. Although they may discuss these concepts using different terms, they generally explain that:
- (a) Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities; and
 - (b) Significant influence (which may be gained by share ownership, statute or agreement) is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.
- A5. The existence of the following relationships may indicate the presence of control or significant influence:
- (a) Direct or indirect equity holdings or other financial interests in the entity.
 - (b) The entity's holdings of direct or indirect equity or other financial interests in other entities.
 - (c) Being part of those charged with governance or key management (that is, those members of management who have the authority and responsibility for planning, directing and controlling the activities of the entity).
 - (d) Being a close family member of any person referred to in subparagraph (c).
 - (e) Having a significant business relationship with any person referred to in subparagraph (c).

Related Parties with Dominant Influence

- A6. Related parties, by virtue of their ability to exert control or significant influence, may be in a position to exert dominant influence over the entity or its management. Consideration of such behaviour is relevant when identifying and assessing the risks of material misstatement due to fraud, as further explained in paragraphs A29-A30.

Special-Purpose Entities as Related Parties

- A7. In some circumstances, a special-purpose entity may be a related party of the entity because the entity may in substance control it, even if the entity owns little or none of the special-purpose entity's equity.

¹⁷ ISA (NZ) 210, "Agreeing the Terms of Audit Engagements," paragraph 6(a).

¹⁸ ISA (NZ) 700 (Revised), paragraph A17.

Risk Assessment Procedures and Related Activities

Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 11)

Considerations Specific to Public Sector Entities

A8. The public sector auditor's responsibilities regarding related party relationships and transactions may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority. Consequently, the public sector auditor's responsibilities may not be limited to addressing the risks of material misstatement associated with related party relationships and transactions, but may also include a broader responsibility to address the risks of non-compliance with law, regulation and other authority governing public sector bodies that lay down specific requirements in the conduct of business with related parties. Further, the public sector auditor may need to have regard to public sector financial reporting requirements for related party relationships and transactions that may differ from those in the private sector.

Understanding the Entity's Related Party Relationships and Transactions

Discussion among the Engagement Team (Ref: Para. 12)

A9. Matters that may be addressed in the discussion among the engagement team include:

- The nature and extent of the entity's relationships and transactions with related parties (using, for example, the auditor's record of identified related parties updated after each audit).
- An emphasis on the importance of maintaining professional scepticism throughout the audit regarding the potential for material misstatement associated with related party relationships and transactions.
- The circumstances or conditions of the entity that may indicate the existence of related party relationships or transactions that management has not identified or disclosed to the auditor (for example, a complex organisational structure, use of special-purpose entities for off-balance sheet transactions, or an inadequate information system).
- The records or documents that may indicate the existence of related party relationships or transactions.
- The importance that management and those charged with governance attach to the identification, appropriate accounting for, and disclosure of related party relationships and transactions (if the applicable financial reporting framework establishes related party requirements), and the related risk of management override of controls.

A10. In addition, the discussion in the context of fraud may include specific consideration of how related parties may be involved in fraud. For example:

- How special-purpose entities controlled by management might be used to facilitate earnings management.

ISA (NZ) 550

- How transactions between the entity and a known business partner of a key member of management could be arranged to facilitate misappropriation of the entity's assets.

The Identity of the Entity's Related Parties (Ref: Para. 13(a))

A11. Where the applicable financial reporting framework establishes related party requirements, information regarding the identity of the entity's related parties is likely to be readily available to management because the entity's information systems will need to record, process and summarise related party relationships and transactions to enable the entity to meet the accounting and disclosure requirements of the framework. Management is therefore likely to have a comprehensive list of related parties and changes from the prior period. For recurring engagements, making the enquiries provides a basis for comparing the information supplied by management with the auditor's record of related parties noted in previous audits.

A12. However, where the framework does not establish related party requirements, the entity may not have such information systems in place. Under such circumstances, it is possible that management may not be aware of the existence of all related parties. Nevertheless, the requirement to make the enquiries specified by paragraph 13 still applies because management may be aware of parties that meet the related party definition set out in this ISA (NZ). In such a case, however, the auditor's enquiries regarding the identity of the entity's related parties are likely to form part of the auditor's risk assessment procedures and related activities performed in accordance with ISA (NZ) 315 (Revised 2019) to obtain information regarding the entity's organisational structure, ownership, governance and business model.

In the particular case of common control relationships, as management is more likely to be aware of such relationships if they have economic significance to the entity, the auditor's enquiries are likely to be more effective if they are focused on whether parties with which the entity engages in significant transactions, or shares resources to a significant degree, are related parties.

A13. In the context of a group audit, ISA (NZ) 600 (Revised) requires the group auditor to request component auditors to communicate on a timely basis related party relationships not previously identified by group management or the group auditor.¹⁹ Such information provides a useful basis for the group auditor's enquiries of management regarding the identity of related parties.

A14. The auditor may also obtain some information regarding the identity of the entity's related parties through enquiries of management during the engagement acceptance or continuance process.

The Entity's Controls over Related Party Relationships and Transactions (Ref: Para. 14)

¹⁹ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 32(b).

ISA (NZ) 550

A15. Others within the entity are those considered likely to have knowledge of the entity's related party relationships and transactions, and the entity's controls over such relationships and transactions. These may include, to the extent that they do not form part of management:

- Those charged with governance;
- Personnel in a position to initiate, process, or record transactions that are both significant and outside the entity's normal course of business, and those who supervise or monitor such personnel;
- The internal audit function;
- In-house legal counsel; and
- The chief ethics officer or equivalent person.

A16. The audit is conducted on the premise that management and, where appropriate, those charged with governance have acknowledged and understand that they have responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, and for such internal control as management and, where appropriate, those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.²⁰ Accordingly, where the framework establishes related party requirements, the preparation of the financial statements requires management, with oversight from those charged with governance, to design, implement and maintain adequate controls over related party relationships and transactions so that these are identified and appropriately accounted for and disclosed in accordance with the framework. In their oversight role, those charged with governance monitor how management is discharging its responsibility for such controls. Regardless of any related party requirements the framework may establish, those charged with governance may, in their oversight role, obtain information from management to enable them to understand the nature and business rationale of the entity's related party relationships and transactions.

A17. In meeting the ISA (NZ) 315 (Revised 2019) requirement to obtain an understanding of the control environment,²¹ the auditor may consider features of the control environment relevant to mitigating the risks of material misstatement associated with related party relationships and transactions, such as:

- Internal ethical codes, appropriately communicated to the entity's personnel and enforced, governing the circumstances in which the entity may enter into specific types of related party transactions.
- Policies and procedures for open and timely disclosure of the interests that management and those charged with governance have in related party transactions.
- The assignment of responsibilities within the entity for identifying, recording, summarising, and disclosing related party transactions.

²⁰ ISA (NZ) 200, paragraph A2.

²¹ ISA (NZ) 315 (Revised 2019), paragraph 21.

ISA (NZ) 550

- Timely disclosure and discussion between management and those charged with governance of significant related party transactions outside the entity's normal course of business, including whether those charged with governance have appropriately challenged the business rationale of such transactions (for example, by seeking advice from external professional advisors).
- Clear guidelines for the approval of related party transactions involving actual or perceived conflicts of interest, such as approval by a subcommittee of those charged with governance comprising individuals independent of management.
- Periodic reviews by the internal audit function, where applicable.
- Proactive action taken by management to resolve related party disclosure issues, such as by seeking advice from the auditor or external legal counsel.
- The existence of ~~whistle-blowing policies and procedures~~ [a whistleblower program \(or other program to report fraud\)](#), where applicable.

A18. Controls over related party relationships and transactions within some entities may be deficient or non-existent for a number of reasons, such as:

- The low importance attached by management to identifying and disclosing related party relationships and transactions.
- The lack of appropriate oversight by those charged with governance.
- An intentional disregard for such controls because related party disclosures may reveal information that management considers sensitive, for example, the existence of transactions involving family members of management.
- An insufficient understanding by management of the related party requirements of the applicable financial reporting framework.
- The absence of disclosure requirements under the applicable financial reporting framework.

Where such controls are ineffective or non-existent, the auditor may be unable to obtain sufficient appropriate audit evidence about related party relationships and transactions. If this were the case, the auditor would, in accordance with ISA (NZ) 705²² consider the implications for the audit, including the opinion in the auditor's report.

A19. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively.²³ The risk of management override of controls is higher if management has relationships that involve control or significant influence with parties with which the entity does business because these relationships may present management with greater incentives and opportunities to perpetrate fraud. For example, management's financial interests in certain related parties may provide incentives for management to override controls by (a) directing the entity, against its interests, to conclude transactions for the benefit of these parties, or (b) colluding with such parties or controlling their actions. Examples of possible fraud include:

²² ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

²³ ISA (NZ) 240, paragraphs [3240](#) and [A4A5](#).

ISA (NZ) 550

- Creating fictitious terms of transactions with related parties designed to misrepresent the business rationale of these transactions.
- Fraudulently organising the transfer of assets from or to management or others at amounts significantly above or below market value.
- Engaging in complex transactions with related parties, such as special-purpose entities, that are structured to misrepresent the financial position or financial performance of the entity.

Considerations specific to smaller entities

A20. Controls in smaller entities are likely to be less formal and smaller entities may have no documented processes for dealing with related party relationships and transactions. An owner-manager may mitigate some of the risks arising from related party transactions, or potentially increase those risks, through active involvement in all the main aspects of the transactions. For such entities, the auditor may obtain an understanding of the related party relationships and transactions, and any controls that may exist over these, through enquiry of management combined with other procedures, such as observation of management's oversight and review activities, and inspection of available relevant documentation.

Authorisation and approval of significant transactions and arrangements (Ref: Para. 14(b))

A21. Authorisation involves the granting of permission by a party or parties with the appropriate authority (whether management, those charged with governance or the entity's shareholders) for the entity to enter into specific transactions in accordance with pre-determined criteria, whether judgemental or not. Approval involves those parties' acceptance of the transactions the entity has entered into as having satisfied the criteria on which authorisation was granted. Examples of controls the entity may have established to authorise and approve significant transactions and arrangements with related parties or significant transactions and arrangements outside the normal course of business include:

- Monitoring controls to identify such transactions and arrangements for authorisation and approval.
- Approval of the terms and conditions of the transactions and arrangements by management, those charged with governance or, where applicable, shareholders.

Maintaining Alertness for Related Party Information When Reviewing Records or Documents

Records or Documents That the Auditor May Inspect (Ref: Para. 15)

A22. During the audit, the auditor may inspect records or documents that may provide information about related party relationships and transactions, for example:

- Third-party confirmations obtained by the auditor (in addition to bank and legal confirmations).
- Entity income tax returns.
- Information supplied by the entity to regulatory authorities.
- Shareholder registers to identify the entity's principal shareholders.

ISA (NZ) 550

- Statements of conflicts of interest from management and those charged with governance.
- Records of the entity's investments and those of its pension plans.
- Contracts and agreements with key management or those charged with governance.
- Significant contracts and agreements not in the entity's ordinary course of business.
- Specific invoices and correspondence from the entity's professional advisors.
- Life insurance policies acquired by the entity.
- Significant contracts re-negotiated by the entity during the period.
- Reports of the internal audit function.
- Documents associated with the entity's filings with a securities regulator (for example, prospectuses).

Arrangements that may indicate the existence of previously unidentified or undisclosed related party relationships or transactions

A23. An arrangement involves a formal or informal agreement between the entity and one or more other parties for such purposes as:

- The establishment of a business relationship through appropriate vehicles or structures.
- The conduct of certain types of transactions under specific terms and conditions.
- The provision of designated services or financial support.

Examples of arrangements that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor include:

- Participation in unincorporated partnerships with other parties.
- Agreements for the provision of services to certain parties under terms and conditions that are outside the entity's normal course of business.
- Guarantees and guarantor relationships.

Identification of Significant Transactions outside the Normal Course of Business (Ref: Para. 16)

A24. Obtaining further information on significant transactions outside the entity's normal course of business enables the auditor to evaluate whether fraud risk factors, if any, are present and, where the applicable financial reporting framework establishes related party requirements, to identify the risks of material misstatement.

A25. Examples of transactions outside the entity's normal course of business may include:

- Complex equity transactions, such as corporate restructurings or acquisitions.
- Transactions with offshore entities in jurisdictions with weak corporate laws.

ISA (NZ) 550

- The leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged.
- Sales transactions with unusually large discounts or returns.
- Transactions with circular arrangements, for example, sales with a commitment to repurchase.
- Transactions under contracts whose terms are changed before expiry.

Understanding the nature of significant transactions outside the normal course of business (Ref: Para. 16(a))

A26. Enquiring into the nature of the significant transactions outside the entity's normal course of business involves obtaining an understanding of the business rationale of the transactions, and the terms and conditions under which these have been entered into.

Enquiring into whether related parties could be involved (Ref: Para. 16(b))

A27. A related party could be involved in a significant transaction outside the entity's normal course of business not only by directly influencing the transaction through being a party to the transaction, but also by indirectly influencing it through an intermediary. Such influence may indicate the presence of a fraud risk factor.

Sharing Related Party Information with the Engagement Team (Ref: Para. 17)

A28. Relevant related party information that may be shared among the engagement team members includes, for example:

- The identity of the entity's related parties.
- The nature of the related party relationships and transactions.
- Significant or complex related party relationships or transactions that may be determined to be significant risks, in particular transactions in which management or those charged with governance are financially involved.

Identification and Assessment of the Risks of Material Misstatement Associated with Related Party Relationships and Transactions

Fraud Risk Factors Associated with a Related Party with Dominant Influence (Ref: Para. 19)

A29. Domination of management by a single person or small group of persons without compensating controls is a fraud risk factor.²⁴ Indicators of dominant influence exerted by a related party include:

- The related party has vetoed significant business decisions taken by management or those charged with governance.
- Significant transactions are referred to the related party for final approval.
- There is little or no debate among management and those charged with governance

²⁴ ISA (NZ) 240, Appendix 1.

regarding business proposals initiated by the related party.

- Transactions involving the related party (or a close family member of the related party) are rarely independently reviewed and approved.

Dominant influence may also exist in some cases if the related party has played a leading role in founding the entity and continues to play a leading role in managing the entity.

A30. In the presence of other risk factors, the existence of a related party with dominant influence may indicate significant risks of material misstatement due to fraud. For example:

- An unusually high turnover of senior management or professional advisors may suggest unethical or fraudulent business practices that serve the related party's purposes.
- The use of business intermediaries for significant transactions for which there appears to be no clear business justification may suggest that the related party could have an interest in such transactions through control of such intermediaries for fraudulent purposes.
- Evidence of the related party's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates may suggest the possibility of fraudulent financial reporting.

Responses to the Risks of Material Misstatement Associated with Related Party Relationships and Transactions (Ref: Para. 20)

A31. The nature, timing and extent of the further audit procedures that the auditor may select to respond to the assessed risks of material misstatement associated with related party relationships and transactions depend upon the nature of those risks and the circumstances of the entity.²⁵

A32. Examples of substantive audit procedures that the auditor may perform when the auditor has assessed a significant risk that management has not appropriately accounted for or disclosed specific related party transactions in accordance with the applicable financial reporting framework (whether due to fraud or error) include:

- Confirming or discussing specific aspects of the transactions with intermediaries such as banks, law firms, guarantors, or agents, where practicable and not prohibited by law, regulation or ethical rules.
- Confirming the purposes, specific terms or amounts of the transactions with the related parties (this audit procedure may be less effective where the auditor judges that the entity is likely to influence the related parties in their responses to the auditor).
- Where applicable, reading the financial statements or other relevant financial information, if available, of the related parties for evidence of the accounting of the

²⁵ ISA (NZ) 330 provides further guidance on considering the nature, timing and extent of further audit procedures. ISA (NZ) 240 establishes requirements and provides guidance on appropriate responses to assessed risks of material misstatement due to fraud.

transactions in the related parties' accounting records.

A33. If the auditor has assessed a significant risk of material misstatement due to fraud as a result of the presence of a related party with dominant influence, the auditor may, in addition to the general requirements of ISA (NZ) 240, perform audit procedures such as the following to obtain an understanding of the business relationships that such a related party may have established directly or indirectly with the entity and to determine the need for further appropriate substantive audit procedures:

- Enquiries of, and discussion with, management and those charged with governance.
- Enquiries of the related party.
- Inspection of significant contracts with the related party.
- Appropriate background research, such as through the Internet or specific external business information databases.
- Review of employee ~~whistle-blowing~~ whistleblower reports where these are retained.

A34. Depending upon the results of the auditor's risk assessment procedures, the auditor may consider it appropriate to obtain audit evidence without testing the entity's controls over related party relationships and transactions. In some circumstances, however, it may not be possible to obtain sufficient appropriate audit evidence from substantive audit procedures alone in relation to the risks of material misstatement associated with related party relationships and transactions. For example, where intra-group transactions between the entity and its components are numerous and a significant amount of information regarding these transactions is initiated, recorded, processed or reported electronically in an integrated system, the auditor may determine that it is not possible to design effective substantive audit procedures that by themselves would reduce the risks of material misstatement associated with these transactions to an acceptably low level. In such a case, in meeting the ISA (NZ) 330 requirement to obtain sufficient appropriate audit evidence as to the operating effectiveness of controls,²⁶ the auditor is required to test the entity's controls over the completeness and accuracy of the recording of the related party relationships and transactions.

Identification of Previously Unidentified or Undisclosed Related Parties or Significant Related Party Transactions

Communicating Newly Identified Related Party Information to the Engagement Team (Ref: Para. 22(a))

A35. Communicating promptly any newly identified related parties to the other members of the engagement team assists them in determining whether this information affects the results of, and conclusions drawn from, risk assessment procedures already performed, including whether the risks of material misstatement need to be reassessed.

Substantive Procedures Relating to Newly Identified Related Parties or Significant Related Party Transactions (Ref: Para. 22(c))

²⁶ ISA (NZ) 330, paragraph 8(b).

ISA (NZ) 550

A36. Examples of substantive audit procedures that the auditor may perform relating to newly identified related parties or significant related party transactions include:

- Making enquiries regarding the nature of the entity's relationships with the newly identified related parties, including (where appropriate and not prohibited by law, regulation or ethical rules) enquiring of parties outside the entity who are presumed to have significant knowledge of the entity and its business, such as legal counsel, principal agents, major representatives, consultants, guarantors, or other close business partners.
- Conducting an analysis of accounting records for transactions with the newly identified related parties. Such an analysis may be facilitated using computer-assisted audit techniques.
- Verifying the terms and conditions of the newly identified related party transactions, and evaluating whether the transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

Intentional Non-Disclosure by Management (Ref: Para. 22(e))

A37. The requirements and guidance in ISA (NZ) 240 regarding the auditor's responsibilities relating to fraud in an audit of financial statements are relevant where management appears to have intentionally failed to disclose related parties or significant related party transactions to the auditor. The auditor may also consider whether it is necessary to re-evaluate the reliability of management's responses to the auditor's enquiries and management's representations to the auditor.

Identified Significant Related Party Transactions outside the Entity's Normal Course of Business

Evaluating the Business Rationale of Significant Related Party Transactions (Ref: Para. 23)

A38. In evaluating the business rationale of a significant related party transaction outside the entity's normal course of business, the auditor may consider the following:

- Whether the transaction:
 - Is overly complex (for example, it may involve multiple related parties within a group).
 - Has unusual terms of trade, such as unusual prices, interest rates, guarantees and repayment terms.
 - Lacks an apparent logical business reason for its occurrence.
 - Involves previously unidentified related parties.
 - Is processed in an unusual manner.
- Whether management has discussed the nature of, and accounting for, such a transaction with those charged with governance.
- Whether management is placing more emphasis on a particular accounting treatment rather than giving due regard to the underlying economics of the

transaction.

If management's explanations are materially inconsistent with the terms of the related party transaction, the auditor is required, in accordance with ISA (NZ) 500,²⁷ to consider the reliability of management's explanations and representations on other significant matters.

- A39. The auditor may also seek to understand the business rationale of such a transaction from the related party's perspective, as this may help the auditor to better understand the economic reality of the transaction and why it was carried out. A business rationale from the related party's perspective that appears inconsistent with the nature of its business may represent a fraud risk factor.

Authorisation and Approval of Significant Related Party Transactions (Ref: Para. 23(b))

- A40. Authorisation and approval by management, those charged with governance, or, where applicable, the shareholders of significant related party transactions outside the entity's normal course of business may provide audit evidence that these have been duly considered at the appropriate levels within the entity and that their terms and conditions have been appropriately reflected in the financial statements. The existence of transactions of this nature that were not subject to such authorisation and approval, in the absence of rational explanations based on discussion with management or those charged with governance, may indicate risks of material misstatement due to error or fraud. In these circumstances, the auditor may need to be alert for other transactions of a similar nature. Authorisation and approval alone, however, may not be sufficient in concluding whether risks of material misstatement due to fraud are absent because authorisation and approval may be ineffective if there has been collusion between the related parties or if the entity is subject to the dominant influence of a related party.

Considerations specific to smaller entities

- A41. A smaller entity may not have the same controls provided by different levels of authority and approval that may exist in a larger entity. Accordingly, when auditing a smaller entity, the auditor may rely to a lesser degree on authorisation and approval for audit evidence regarding the validity of significant related party transactions outside the entity's normal course of business. Instead, the auditor may consider performing other audit procedures such as inspecting relevant documents, confirming specific aspects of the transactions with relevant parties, or observing the owner-manager's involvement with the transactions.

Assertions That Related Party Transactions Were Conducted on Terms Equivalent to Those Prevailing in an Arm's Length Transaction (Ref: Para. 24)

- A42. Although audit evidence may be readily available regarding how the price of a related party transaction compares to that of a similar arm's length transaction, there are ordinarily practical difficulties that limit the auditor's ability to obtain audit evidence that all other aspects of the transaction are equivalent to those of the arm's length transaction.

²⁷ ISA (NZ) 500, *Audit Evidence*, paragraph 11.

ISA (NZ) 550

For example, although the auditor may be able to confirm that a related party transaction has been conducted at a market price, it may be impracticable to confirm whether other terms and conditions of the transaction (such as credit terms, contingencies and specific charges) are equivalent to those that would ordinarily be agreed between independent parties. Accordingly, there may be a risk that management's assertion that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction may be materially misstated.

A43. The preparation of the financial statements requires management to substantiate an assertion that a related party transaction was conducted on terms equivalent to those prevailing in an arm's length transaction. Management's support for the assertion may include:

- Comparing the terms of the related party transaction to those of an identical or similar transaction with one or more unrelated parties.
- Engaging an external expert to determine a market value and to confirm market terms and conditions for the transaction.
- Comparing the terms of the transaction to known market terms for broadly similar transactions on an open market.

A44. Evaluating management's support for this assertion may involve one or more of the following:

- Considering the appropriateness of management's process for supporting the assertion.
- Verifying the source of the internal or external data supporting the assertion, and testing the data to determine their accuracy, completeness and relevance.
- Evaluating the reasonableness of any significant assumptions on which the assertion is based.

A45. Some financial reporting frameworks require the disclosure of related party transactions not conducted on terms equivalent to those prevailing in arm's length transactions. In these circumstances, if management has not disclosed a related party transaction in the financial statements, there may be an implicit assertion that the transaction was conducted on terms equivalent to those prevailing in an arm's length transaction.

Evaluation of the Accounting for and Disclosure of Identified Related Party Relationships and Transactions

Materiality Considerations in Evaluating Misstatements (Ref: Para. 25)

A46. ISA (NZ) 450 requires the auditor to consider both the size and the nature of a misstatement, and the particular circumstances of its occurrence, when evaluating whether the misstatement is material.²⁸ The significance of the transaction to the financial

²⁸ ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 124(a). Paragraph A242 of ISA (NZ) 450 provides guidance on the circumstances that may affect the evaluation of a misstatement.

ISA (NZ) 550

statement users may not depend solely on the recorded amount of the transaction but also on other specific relevant factors, such as the nature of the related party relationship.

Evaluation of Related Party Disclosures (Ref: Para. 25(a))

A47. Evaluating the related party disclosures in the context of the disclosure requirements of the applicable financial reporting framework means considering whether the facts and circumstances of the entity's related party relationships and transactions have been appropriately summarised and presented so that the disclosures are understandable. Disclosures of related party transactions may not be understandable if:

- (a) The business rationale and the effects of the transactions on the financial statements are unclear or misstated; or
- (b) Key terms, conditions, or other important elements of the transactions necessary for understanding them are not appropriately disclosed.

Written Representations (Ref: Para. 26)

A48. Circumstances in which it may be appropriate to obtain written representations from those charged with governance include:

- When they have approved specific related party transactions that (a) materially affect the financial statements, or (b) involve management.
- When they have made specific oral representations to the auditor on details of certain related party transactions.
- When they have financial or other interests in the related parties or the related party transactions.

A49. The auditor may also decide to obtain written representations regarding specific assertions that management may have made, such as a representation that specific related party transactions do not involve undisclosed side agreements.

Communication with Those Charged with Governance (Ref: Para. 27)

A50. Communicating significant matters arising during the audit²⁹ in connection with the entity's related parties helps the auditor to establish a common understanding with those charged with governance of the nature and resolution of these matters. Examples of significant related party matters include:

- Non-disclosure (whether intentional or not) by management to the auditor of related parties or significant related party transactions, which may alert those charged with governance to significant related party relationships and transactions of which they may not have been previously aware.
- The identification of significant related party transactions that have not been appropriately authorised and approved, which may give rise to suspected fraud.

²⁹ ISA (NZ) 230, paragraph A8, provides further guidance on the nature of significant matters arising during the audit.

ISA (NZ) 550

- Disagreement with management regarding the accounting for and disclosure of significant related party transactions in accordance with the applicable financial reporting framework.
- Non-compliance with applicable law or regulations prohibiting or restricting specific types of related party transactions.
- Difficulties in identifying the party that ultimately controls the entity.

ISA (NZ) 550

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

[This conformity statement is not part of the standard.](#)

[This conformity statement accompanies but is not part of ISA \(NZ\) 550.](#)

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 550 *Related Parties*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

The following paragraphs are additional to ISA 550:

- For the purposes of this ISA (NZ), a reference to “management” is taken to mean “management, and where appropriate, those charged with governance”.
- In New Zealand, those charged with governance often have a statutory responsibility for the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.

This ISA (NZ) incorporates terminology and definitions used in New Zealand. The ISAs require the auditor to obtain written representations from management. The ISAs (NZ) require written representations from those charged with governance. - Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.

Compliance with this ISA (NZ) enables compliance with ISA 550.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 550 *Related Parties*.

The following requirements are additional to ISA 550 and ISA (NZ) 550:

- If the auditor is unable to:
 - ◆ obtain sufficient appropriate audit evidence regarding related parties and related party transactions; or
 - ◆ form a conclusion as to the completeness of the disclosure of related party relationships and transactions in accordance with the applicable financial reporting framework;

the auditor shall modify the auditor’s opinion in accordance with ASA 705. [Ref: Para. Aus 27.1]
- If the auditor concludes that the related party disclosures in the financial report do not

ISA (NZ) 550

satisfy the requirements of the applicable financial reporting framework, the auditor shall modify the auditor's opinion in accordance with ASA 705. [Ref: Para. Aus 27.2]

ASA 550 conforms to ISA 550.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 550 <i>Related Parties</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 560

Subsequent Events ~~(ISA (NZ) 560)~~

~~Issued July 2011~~

~~This compilation was prepared in June 2021 and incorporates amendments up to and including June 2020.~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 560 issued by the External Reporting Board in July 2011.

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-22-7

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 560 *Subsequent Events* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 560 issued by the External Reporting Board in July 2011 (as amended to February 2020).

The revision of ISA (NZ) 560 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 560

SUBSEQUENT EVENTS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1
Subsequent Events	2
Effective Date	3
Objectives	4
Definitions	5
Requirements	
Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report	6-9
Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Financial Statements are Issued	10-13
Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued	14-17
Application and Other Explanatory Material	
Scope of this ISA (NZ)	A1
Definitions	A2-A5
Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report	A6-A10
Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Financial Statements Are Issued	A11-A17
Facts Which Become Known to the Auditor After the Financial Statements Have Been Issued	A18-NZ A20.1
<u>Accompanying Attachment: Conformity to the International Standards on Auditing</u>	

International Standard on Auditing (New Zealand) (ISA (NZ)) 560, “*Subsequent Events*” should be read in conjunction with ISA (NZ) 200, “*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.”

History of Amendments

Table of pronouncements – ISA (NZ) 560 *Subsequent Events*

This table lists the pronouncements establishing and amending ISA (NZ) 560.

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 560	<u>October 2025</u> <u>July 2011</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.</u>
<u>Use of management and those charged with governance</u>	<u>December 2013</u>	<u>Effective for audits of financial statements for periods beginning on or after 1 July 2014</u>
<u>Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting)</u>	<u>September 2015</u>	<u>Effective for audits of financial statements for periods ending on or after 15 December 2016.</u>
<u>Amendment to Standards Issued by the NZAuASB: ISA (NZ) 560 Subsequent Events</u>	<u>February 2020</u>	<u>Effective for audits of financial statements for periods beginning on or after 15 July 2020. Early adoption is permitted.</u>
<u>Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)</u>	<u>February 2020</u>	<u>Effective for audits of financial statements for periods beginning on or after 15 December 2021</u>

Table of Amended Paragraphs in ISA (NZ) 560		
Paragraph affected	How affected	By...[date]
Various	Amended	<u>Use of management and those charged with governance [Dec 2013]</u>
<u>1, A1 A11, A18</u>	<u>Amended</u> <u>Inserted</u>	<u>Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting) [Sept 2015]</u>
<u>14</u> <u>NZ 14.1,</u> <u>NZ A20.1</u>	<u>Amended</u> <u>Inserted</u>	<u>Amendment to Standards Issued by the NZAuASB: ISA (NZ) 560 Subsequent Events</u>
	Amended	<u>Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)</u>

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. It does not deal with matters relating to the auditor's responsibilities for other information obtained after the date of the auditor's report, which are addressed in ISA (NZ) 720 (Revised)². However, such other information may bring to light a subsequent event that is within the scope of this ISA (NZ). (Ref: Para. A1)

Subsequent Events

2. Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events.³ Such financial reporting frameworks ordinarily identify two types of events:
 - (a) Those that provide evidence of conditions that existed at the date of the financial statements; and
 - (b) Those that provide evidence of conditions that arose after the date of the financial statements.

ISA (NZ) 700 (Revised) explains that the date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.⁴

Effective Date

3. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011.~~[\[Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2\]](#)

[NZ3.1 This Standard repeals ISA \(NZ\) 560 *Subsequent Events* issued in July 2011.](#)

Objectives

4. The objectives of the auditor are:
 - (a) To obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework; and
 - (b) To respond appropriately to facts that become known to the auditor after the date of the auditor's report, that, had they been known to the auditor at that date, may have caused the auditor to amend the auditor's report.

² ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

³ For example, New Zealand equivalent to International Accounting Standard (NZ IAS) 10, *"Events After the Balance Sheet Date/Reporting Period"* deals with the treatment in financial statements of events, both favourable and unfavourable, that occur between the date of the financial statements (referred to as the *"balance sheet date/end of the reporting period"* in the NZ IAS) and the date when the financial statements are authorised for issue.

⁴ ISA (NZ) 700, (Revised) *Forming an Opinion and Reporting on Financial Statements*, paragraph A3867.

Definitions

5. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Date of the financial statements – The date of the end of the latest period covered by the financial statements.
 - (b) Date of approval of the financial statements – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognised authority have asserted that they have taken responsibility for those financial statements. (Ref: Para. A2)
 - (c) Date of the auditor's report – The date the auditor dates the report on the financial statements in accordance with ISA (NZ) 700 (Revised). (Ref: Para. A3)
 - (d) Date the financial statements are issued – The date that the auditor's report and audited financial statements are made available to third parties. (Ref: Para. A4-A5)
 - (e) Subsequent events – Events occurring between the date of the financial statements and the date of the auditor's report, and facts that become known to the auditor after the date of the auditor's report.

Requirements

Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report

6. The auditor shall perform audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements have been identified. The auditor is not, however, expected to perform additional audit procedures on matters to which previously applied audit procedures have provided satisfactory conclusions. (Ref: Para. A6)
7. The auditor shall perform the procedures required by paragraph 6 so that they cover the period from the date of the financial statements to the date of the auditor's report, or as near as practicable thereto. The auditor shall take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which shall include the following: (Ref: Para. A7-A8)
 - (a) Obtaining an understanding of any procedures management has established to ensure that subsequent events are identified.
 - (b) Enquiring of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements. (Ref: Para. A9)
 - (c) Reading minutes, if any, of the meetings of the entity's owners, management and those charged with governance, that have been held after the date of the financial statements and enquiring about matters discussed at any such meetings for which minutes are not yet available. (Ref: Para. A10)
 - (d) Reading the entity's latest subsequent interim financial statements, if any.
8. When, as a result of the procedures performed as required by paragraphs 6 and 7, the auditor identifies events that require adjustment of, or disclosure in, the financial

ISA (NZ) 560

statements, the auditor shall determine whether each such event is appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.

Written Representations

9. [Amended by the NZAuASB.]

NZ9.1 The auditor shall request those charged with governance to provide a written representation in accordance with ISA (NZ) 580⁵ that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Financial Statements Are Issued

10. The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall: (Ref: Para. A11-A12)

- (a) Discuss the matter with management and, where appropriate, those charged with governance.
- (b) Determine whether the financial statements need amendment and, if so,
- (c) Enquire how management intends to address the matter in the financial statements.

11. If management amends the financial statements, the auditor shall:

- (a) Carry out the audit procedures necessary in the circumstances on the amendment.
- (b) Unless the circumstances in paragraph 12 apply:
 - (i) Extend the audit procedures referred to in paragraphs 6 and 7 to the date of the new auditor's report; and
 - (ii) Provide a new auditor's report on the amended financial statements. The new auditor's report shall not be dated earlier than the date of approval of the amended financial statements.

12. Where law, regulation or the financial reporting framework does not prohibit management from restricting the amendment of the financial statements to the effects of the subsequent event or events causing that amendment and those responsible for approving the financial statements are not prohibited from restricting their approval to that amendment⁶, the auditor is permitted to restrict the audit procedures on subsequent events required in paragraph 11(b)(i) to that amendment. In such cases, the auditor shall either:

- a. Amend the auditor's report to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent

⁵ ISA (NZ) 580, *Written Representations*.

⁶ These prohibitions are unlikely to exist in New Zealand.

ISA (NZ) 560

events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements; or (Ref: Para. A13)

- b. Provide a new or amended auditor's report that includes a statement in an Emphasis of Matter paragraph⁷ or Other Matter paragraph that conveys that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements as described in the relevant note to the financial statements.
13. In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue amended financial statements and, accordingly, the auditor need not provide an amended or new auditor's report. However, if management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then: (Ref: Para. A14-A15)
- (a) If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion as required by ISA (NZ) 705 (Revised)⁸ and then provide the auditor's report; or
 - (b) If the auditor's report has already been provided to the entity, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the auditor shall take action to seek to prevent reliance on the auditor's report. (Ref: Para: A16-A17)

Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued

14. *[Amended by the NZAuASB]*

NZ14.1 After the financial statements have been issued, the auditor has no obligation to perform any audit procedures regarding such financial statements. However, if, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall: (Ref: Para. A18)

- (a) Discuss the matter with management and, where appropriate, those charged with governance within a reasonable period of time;
 - (b) Determine whether the financial statements need amendment; and, if so,
 - (c) Enquire how management intends to address the matter in the financial statements.
15. If management amends the financial statements, the auditor shall: (Ref: Para. A19)
- (a) Carry out the audit procedures necessary in the circumstances on the amendment.

⁷ See ISA (NZ) 706 (Revised); *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

⁸ ISA (NZ) 705 (Revised); *Modifications to the Opinion in the Independent Auditor's Report*.

ISA (NZ) 560

- (b) Review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation.
 - (c) Unless the circumstances in paragraph 12 apply:
 - (i) Extend the audit procedures referred to in paragraphs 6 and 7 to the date of the new auditor's report and date the new auditor's report no earlier than the date of approval of the amended financial statements; and
 - (ii) Provide a new auditor's report on the amended financial statements.
 - (d) When the circumstances in paragraph 12 apply, amend the auditor's report or provide a new auditor's report as required by paragraph 12.
16. The auditor shall include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter(s) paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor.
17. If management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity⁹, those charged with governance that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report. (Ref: Para. A20-NZ A20.1)

Application and Other Explanatory Material**Scope of this ISA (NZ)** (Ref: Para. 1)

- A1. When the audited financial statements are included in other documents subsequent to the issuance of the financial statements (other than annual reports that would be within the scope of ISA (NZ) 720 (Revised)), the auditor may have additional responsibilities relating to subsequent events that the auditor may need to consider, such as legal or regulatory requirements involving the offering of securities to the public in jurisdictions in which the securities are being offered. For example, the auditor may be required to perform additional audit procedures to the date of the final offering document. These procedures may include those referred to in paragraphs 6 and 7 performed up to a date at or near the effective date of the final offering document, and reading the offering document to assess whether the other information in the offering document is consistent with the financial information with which the auditor is associated.¹⁰

⁹ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13.

¹⁰ See ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 2.

Definitions

Date of Approval of the Financial Statements (Ref: Para. 5(b))

- A2. In some jurisdictions, law or regulation identifies the individuals or bodies (for example, management or those charged with governance) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process¹¹. In other jurisdictions, the approval process is not prescribed in law or regulation and the entity follows its own procedures in preparing and finalising its financial statements in view of its management and governance structures. In some jurisdictions, final approval of the financial statements by shareholders is required. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements has been obtained. The date of approval of the financial statements for purposes of the ISAs (NZ) is the earlier date on which those with the recognised authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognised authority have asserted that they have taken responsibility for those financial statements.

Date of the Auditor's Report (Ref: Para. 5(c))

- A3. The auditor's report cannot be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements including evidence that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognised authority have asserted that they have taken responsibility for those financial statements.¹² Consequently, the date of the auditor's report cannot be earlier than the date of approval of the financial statements as defined in paragraph 5(b). A time period may elapse due to administrative issues between the date of the auditor's report as defined in paragraph 5(c) and the date the auditor's report is provided to the entity.

Date the Financial Statements Are Issued (Ref: Para. 5(d))

- A4. The date the financial statements are issued generally depends on the regulatory environment of the entity. In some circumstances, the date the financial statements are issued may be the date that they are filed with a regulatory authority. Since audited financial statements cannot be issued without an auditor's report, the date that the audited financial statements are issued must not only be at or later than the date of the auditor's report, but must also be at or later than the date the auditor's report is provided to the entity.

¹¹ For most New Zealand entities those charged with governance are responsible for the preparation and presentation of the financial statements.

¹² ISA (NZ) 700 (Revised), paragraph 49.– In some cases, law or regulation also identifies the point in the financial statement reporting process at which the audit is expected to be complete.

Considerations Specific to Public Sector Entities

- A5. In the case of the public sector, the date the financial statements are issued may be the date the audited financial statements and the auditor's report thereon are presented to the legislature or otherwise made public.

Events Occurring between the Date of the Financial Statements and the Date of the Auditor's Report (Ref: Para. 6-9)

- A6. Depending on the auditor's risk assessment, the audit procedures required by paragraph 6 may include procedures, necessary to obtain sufficient appropriate audit evidence, involving the review or testing of accounting records or transactions occurring between the date of the financial statements and the date of the auditor's report. The audit procedures required by paragraphs 6 and 7 are in addition to procedures that the auditor may perform for other purposes that, nevertheless, may provide evidence about subsequent events (for example, to obtain audit evidence for account balances as at the date of the financial statements, such as cut-off procedures or procedures in relation to subsequent receipts of accounts receivable).
- A7. Paragraph 7 stipulates certain audit procedures in this context that the auditor is required to perform pursuant to paragraph 6. The subsequent events procedures that the auditor performs may, however, depend on the information that is available and, in particular, the extent to which the accounting records have been prepared since the date of the financial statements. Where the accounting records are not up-to-date, and accordingly no interim financial statements (whether for internal or external purposes) have been prepared, or minutes of meetings of management or those charged with governance have not been prepared, relevant audit procedures may take the form of inspection of available books and records, including bank statements. Paragraph A8 gives examples of some of the additional matters that the auditor may consider in the course of these enquiries.
- A8. In addition to the audit procedures required by paragraph 7, the auditor may consider it necessary and appropriate to:
- Read the entity's latest available budgets, cash flow forecasts and other related management reports for periods after the date of the financial statements;
 - Enquire, or extend previous oral or written enquiries, of the entity's legal counsel concerning litigation and claims; or
 - Consider whether written representations covering particular subsequent events may be necessary to support other audit evidence and thereby obtain sufficient appropriate audit evidence.

Enquiry (Ref. Para. 7(b))

- A9. In enquiring of management and, where appropriate, those charged with governance, as to whether any subsequent events have occurred that might affect the financial statements, the auditor may enquire as to the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific enquiries about the following matters:
- Whether new commitments, borrowings or guarantees have been entered into.
 - Whether sales or acquisitions of assets have occurred or are planned.

ISA (NZ) 560

- Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned.
- Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
- Whether there have been any developments regarding contingencies.
- Whether any unusual accounting adjustments have been made or are contemplated.
- Whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements as would be the case, for example, if such events call into question the appropriateness of management's use of the validity of the going concern basis of accounting in the preparation of the financial statements assumption.
- Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements.
- Whether any events have occurred that are relevant to the recoverability of assets.

Reading Minutes (Ref. Para. 7(c))

Considerations Specific to Public Sector Entities

A10. In the public sector, the auditor may read the official records of relevant proceedings of the legislature and enquire about matters addressed in proceedings for which official records are not yet available.

Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Financial Statements Are Issued

Implications of Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 10)

A11. While the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report but before the date the financial statements are issued, ISA (NZ) 720 (Revised) contains requirements and guidance with respect to other information obtained after the date of the auditor's report, which might include other information obtained after the date of the auditor's report, but before the date the financial statements are issued.

Responsibility of Those Charged with Governance towards Auditor (Ref: Para. 10)

A12. [Amended by the NZAuASB.]

NZA12.1 As explained in ISA (NZ) 210, the terms of the audit engagement include the agreement of those charged with governance to inform the auditor of facts that may affect the financial statements, of which they may become aware during the period from the date of the auditor's report to the date the financial statements are issued.¹³

Dual Dating (Ref: Para. 12(a))

¹³ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph A24.

ISA (NZ) 560

A13. When, in the circumstances described in paragraph 12(a), the auditor amends the auditor's report to include an additional date restricted to that amendment, the date of the auditor's report on the financial statements prior to their subsequent amendment by management remains unchanged because this date informs the reader as to when the audit work on those financial statements was completed. However, an additional date is included in the auditor's report to inform users that the auditor's procedures subsequent to that date were restricted to the subsequent amendment of the financial statements. The following is an illustration of such an additional date:

“(Date of auditor's report), except as to Note Y, which is of (date of completion of audit procedures restricted to amendment described in Note -Y).”

No Amendment of Financial Statements by Management (Ref: Para. 13)

A14. In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue amended financial statements. This is often the case when issuance of the financial statements for the following period is imminent, provided appropriate disclosures are made in such statements.

Considerations Specific to Public Sector Entities

A15. In the public sector, the actions taken in accordance with paragraph 13 when management does not amend the financial statements may also include reporting separately to the legislature, or other relevant body in the reporting hierarchy, on the implications of the subsequent event for the financial statements and the auditor's report.¹⁴

Auditor Action to Seek to Prevent Reliance on Auditor's Report (Ref: Para. 13(b))

A16. The auditor may need to fulfill additional legal obligations even when the auditor has notified management not to issue the financial statements and management has agreed to this request.

A17. Where management has issued the financial statements despite the auditor's notification not to issue the financial statements to third parties, the auditor's course of action to prevent reliance on the auditor's report on the financial statements depends upon the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued

Implications of Other Information Received after the Financial Statements Have Been Issued
(Ref: Para. 14)

A18. The auditor's obligations regarding other information received after the date of the auditor's report are addressed in ISA (NZ) 720 (Revised). While the auditor has no obligation to perform any audit procedures regarding the financial statements after the financial statements have been issued, ISA (NZ) 720 (Revised) contains requirements

¹⁴ This is Unlikely to be the case in New Zealand.

and guidance with respect to other information obtained after the date of the auditor's report.

No Amendment of Financial Statements by Management (Ref: Para. 15)

Considerations Specific to Public Sector Entities

A19. In some jurisdictions, entities in the public sector may be prohibited from issuing amended financial statements by law or regulation. In such circumstances, the appropriate course of action for the auditor may be to report to the appropriate statutory body.¹⁵

Auditor Action to Seek to Prevent Reliance on Auditor's Report (Ref: Para. 17)

A20. Where the auditor believes that management, or those charged with governance, have failed to take the necessary steps to prevent reliance on the auditor's report on financial statements previously issued by the entity despite the auditor's prior notification that the auditor will take action to seek to prevent such reliance, the auditor's course of action depends upon the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

NZ-A20.1 _Unless legal advice obtained recommends a different course of action, possible actions the auditor may consider include:

- (a) Notifying management and those charged with governance that the auditor's report must no longer be associated with the financial statements.
- (b) If applicable, notifying the appropriate authority having jurisdiction over the entity that the auditor's report should no longer be relied upon, and requesting the authority to take steps to provide appropriate disclosure.
- (c) If practicable, notifying each person known to the auditor to be relying on the financial statements that the auditor's report should no longer be relied upon.

¹⁵ This is unlikely to be the case in New Zealand.

ISA (NZ) 560

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 560.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 560 *Subsequent Events*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

- References to “management” and “those charged with governance” have been amended in the ISAs (NZ) because the responsibility for the preparation of the financial statements on behalf of the entity generally rests with those charged with governance. The ISAs require the auditor to agree the terms of the engagement and to obtain written representations from management. The ISAs (NZ) require the auditor to agree terms of the engagement and obtain written representations from those charged with governance. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.
- If, after the financial statements have been issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor’s report, may have caused the auditor to amend the auditor’s report, paragraph NZ 14.1 requires the auditor to discuss the matter with management and, where appropriate, those charged with governance within a reasonable period of time. Paragraph NZ A20.1 provides guidance on the actions the auditor may take to seek to prevent reliance on the auditor’s report.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 560.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 560 *Subsequent Events*

ASA 560 conforms to ISA 560.

The following requirements are additional to ISA 560 and ISA (NZ) 560:

- For an audit engagement conducted under the *Corporations Act 2001*, management, and those charged with governance, are prohibited from restricting an amendment of the financial report to the effects of the subsequent event or events causing that amendment. Consequently, the auditor is prohibited from restricting audit procedures as required under paragraph 11(b)(i) of this Auditing Standard to such an amendment. [Ref: Para. Aus 12.1]

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 560</u> <u>Subsequent Events</u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 580

Written Representations ~~(ISA (NZ) 580)~~

~~This compilation was prepared in June 2021 and incorporates amendments up to and including June 2020.~~

~~Effective for audits of historical financial statements for periods beginning on or after 1 September 2011.~~

~~This Standard was issued by the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 580 issued by the External Reporting Board in July 2011.~~

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-24-1

ISA (NZ) 580



Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 580 *Written Representations* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 580 issued by the External Reporting Board in July 2011 (as amended to February 2020).

The revision of ISA (NZ) 580 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 580

WRITTEN REPRESENTATIONS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Commencement and Application	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1-2
Written Representations as Audit Evidence	3-4
Effective Date	5
Objectives	6
Definitions	7-8
Requirements	
Written Representations Requested from Those Charged with Governance.....	9
Written Representations about the Responsibilities of Those Charged with Governance	10-12
Other Written Representations.....	13
Date of and Period(s) Covered by Written Representations	14
Form of Written Representations	15
Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided.....	16-20
Application and Other Explanatory Material	
Written Representations as Audit Evidence	A1
Written Representations Requested from Those Charged with Governance.....	A2-A6
Written Representations about Management's Responsibilities.....	A7-A9
Other Written Representations	A10-A13
Communicating a Threshold Amount.....	A14
Date of and Period(s) Covered by Written Representations.....	A15-A18
Form of Written Representations	A19-A21
Communication with Those Charged with Governance	A22

ISA (NZ) 580

Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided A23-A27

Appendix 1: List of ISAs (NZ) Containing Requirements for Written Representations

Appendix 2: Illustrative Representation Letter

~~Accompanying Attachment: Conformity to the International Standards on Auditing~~

International Standard on Auditing (New Zealand) (ISA (NZ)) 580, *“Written Representations”* ~~is to be read in the context of the Framework for Assurance Engagements and should be read~~ in conjunction with ISA (NZ) 200, *“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand).”*

History of Amendments

Table of pronouncements – ISA (NZ) 580 *Written Representations*

This table lists the pronouncements establishing and amending ISA (NZ) 580.

Pronouncements	Date approved	Effective date <u>Application</u>
International Standard on Auditing (New Zealand) 580	~~July 2014~~ <u>October 2025</u>	~~Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September 2011~~
~~Amendments to the International Standards on Auditing (New Zealand) to Promote Improved Audit Quality~~	~~September 2013~~	~~Effective for audits of financial statements for periods ending on or after 31 December 2014~~
~~Use of management and those charged with governance~~	~~December 2013~~	~~Effective for audits of financial statements for periods beginning on or after 1 July 2014~~
~~Amendments to the International Standards on Auditing (New Zealand) to Describe the Responsibilities of Those Charged with Governance~~	~~Sept 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016. Early adoption is permitted.~~
~~Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting)~~	~~September 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures~~	~~September 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates)~~	~~October 2018~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2019.~~
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021~~

ISA (NZ) 580

Table of Amended Paragraphs in ISA (NZ) 580		
Paragraph affected	How affected	By...[date]
NZA20.1	Amended	Amendments to the International Standards on Auditing (New Zealand) to Promote Improved Audit Quality [September 2013]
Various	Amended	Use of management and those charged with governance [Dec 2013]
NZ1.1, Appendix 2	Amended	Amendments to the International Standards on Auditing (New Zealand) to Describe the Responsibilities of Those Charged with Governance [Sept 2015]
Appendix 1 & 2	Amended	Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting) [Sept 2015]
Appendix 2		Amendments to the International Standards on Auditing (New Zealand) (ISAs (NZ)) on Auditing Financial Statement Disclosures [Sept 2015]
Appendix 1 & 2	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates) [Oct 2018]
	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [Feb 2020]

ISA (NZ) 580



Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to obtain written representations from management and, where appropriate, those charged with governance in an audit of financial statements.
- NZ1.1 In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.
2. Appendix 1 lists other ISAs (NZ) containing subject matter-specific requirements for written representations. The specific requirements for written representations of other ISAs (NZ) do not limit the application of this ISA (NZ).

Written Representations as Audit Evidence

3. Audit evidence is the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.² Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to enquiries, written representations are audit evidence. (Ref: Para. A1)
4. Although written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own about any of the matters with which they deal. Furthermore, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities, or about specific assertions.

Effective Date

5. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2009. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ5.1 This Standard repeals ISA (NZ) 580 Written Representations issued in July 2011.

Objectives

6. The objectives of the auditor are:
 - (a) To obtain written representations from management and, where appropriate, those charged with governance that they believe that they have fulfilled their

² ISA (NZ) 500, *Audit Evidence*, paragraph 5(c).

ISA (NZ) 580

responsibility for the preparation of the financial statements and for the completeness of the information provided to the auditor;

- (b) To support other audit evidence relevant to the financial statements or specific assertions in the financial statements by means of written representations if determined necessary by the auditor or required by other ISAs (NZ); and
- (c) To respond appropriately to written representations provided by management and, where appropriate, those charged with governance or if management or, where appropriate, those charged with governance do not provide the written representations requested by the auditor.

Definitions

7. For purposes of the ISAs (NZ), the following term has the meaning attributed below:

Written representation – A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence. Written representations in this context do not include financial statements, the assertions therein, or supporting books and records.

8. For purposes of this ISA (NZ), references to “management” should be read as “management and, where appropriate, those charged with governance.” Furthermore, in the case of a fair presentation framework, management is responsible for the preparation and *fair* presentation of the financial statements in accordance with the applicable financial reporting framework; or the preparation of financial statements *that give a true and fair view* in accordance with the applicable financial reporting framework.

Requirements**Written Representations Requested from Those Charged with Governance**

9. [Amended by the NZAuASB].

NZ9.1 The auditor shall request written representations from those charged with governance with appropriate responsibilities for the financial statements and knowledge of the matters concerned. (Ref: Para. A2-A6)

Written Representations about the Responsibilities of Those Charged with Governance*Preparation of the Financial Statements*

10. [Amended by the NZAuASB].

NZ10.1 The auditor shall request those charged with governance to provide a written representation that they have fulfilled their responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation, as set out in the terms of the audit engagement.³ (Ref: Para. A7-A9, A14, A22)

³ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(b)(i).

Information Provided and Completeness of Transactions

11. [Amended by the NZAuASB].

NZ11.1 The auditor shall request those charged with governance to provide a written representation that:

- (a) They have provided the auditor with all relevant information and access as agreed in the terms of the audit engagement;⁴ and
- (b) All transactions have been recorded and are reflected in the financial statements.
(Ref: Para. A7-A9, A14, A22)

Description of the Responsibilities of Those Charged with Governance in the Written Representations

12. [Amended by the NZAuASB].

NZ12.1 The responsibilities of those charged with governance shall be described in the written representations required by paragraphs 10 and 11 in the manner in which these responsibilities are described in the terms of the audit engagement.

Other Written Representations

13. Other ISAs (NZ) require the auditor to request written representations. If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other written representations. (Ref: Para. A10-A13, A14, A22)

Date of and Period(s) Covered by Written Representations

14. The date of the written representations shall be as near as practicable to, but not after, the date of the auditor's report on the financial statements. The written representations shall be for all financial statements and period(s) referred to in the auditor's report. (Ref: Para. A15-A18)

Form of Written Representations

15. The written representations shall be in the form of a representation letter addressed to the auditor. If law or regulation requires management to make written public statements about its responsibilities, and the auditor determines that such statements provide some or all of the representations required by paragraphs 10 or 11, the relevant matters covered by such statements need not be included in the representation letter. (Ref: Para. A19-A21)

Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided*Doubt as to the Reliability of Written Representations*

16. If the auditor has concerns about the competence, integrity, ethical values or diligence of management, or about its commitment to or enforcement of these, the auditor shall

⁴ ISA (NZ) 210, paragraph 6(b)(iii).

ISA (NZ) 580

determine the effect that such concerns may have on the reliability of representations (oral or written) and audit evidence in general. (Ref: Para. A24-A25)

17. In particular, if written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to attempt to resolve the matter. If the matter remains unresolved, the auditor shall reconsider the assessment of the competence, integrity, ethical values or diligence of management, or of its commitment to or enforcement of these, and shall determine the effect that this may have on the reliability of representations (oral or written) and audit evidence in general. (Ref: Para. A23)
18. If the auditor concludes that the written representations are not reliable, the auditor shall take appropriate action, including determining the possible effect on the opinion in the auditor's report in accordance with ISA (NZ) 705 (Revised),⁵ having regard to the requirement in paragraph 20 of this ISA (NZ).

Requested Written Representations Not Provided

19. If management does not provide one or more of the requested written representations, the auditor shall:
 - (a) Discuss the matter with management;
 - (b) Re-evaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
 - (c) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with ISA (NZ) 705 (Revised), having regard to the requirement in paragraph 20 of this ISA (NZ).

Written Representations about the Responsibilities of Those Charged with Governance

20. [Amended by the NZAuASB].
- NZ20. The auditor shall disclaim an opinion on the financial statements in accordance with ISA (NZ) 705 (Revised) if:
 - (a) The auditor concludes that there is sufficient doubt about the integrity of those charged with governance such that the written representations required by paragraphs 10 and 11 are not reliable; or
 - (b) Those charged with governance do not provide the written representations required by paragraphs 10 and 11. (Ref: Para. A26-A27)

Application and Other Explanatory Material**Written Representations as Audit Evidence** (Ref: Para. 3)

- A1. Written representations are an important source of audit evidence. If management modifies or does not provide the requested written representations, it may alert the auditor to the possibility that one or more significant issues may exist. Further, a request for written, rather than oral, representations in many cases may prompt management to

⁵ ISA (NZ) 705 (Revised); *Modifications to the Opinion in the Independent Auditor's Report*.

ISA (NZ) 580

consider such matters more rigorously, thereby enhancing the quality of the representations.

Written Representations Requested from Those Charged with Governance (Ref: Para. 9)

A2. [Amended by the NZAuASB].

NZA2.1 Written representations are requested from those responsible for the preparation of the financial statements. Those individuals may vary depending on the governance structure of the entity, and relevant law or regulation; however, those charged with governance (rather than management) are often the responsible party. In some circumstances, however, other parties, such as management, are also responsible for the preparation of the financial statements. Written representations may therefore be requested from the entity's chief executive officer and chief financial officer, or other equivalent persons in entities that do not use such titles.

A3. Due to its responsibility for the preparation of the financial statements, and its responsibilities for the conduct of the entity's business, management would be expected to have sufficient knowledge of the process followed by the entity in preparing and presenting the financial statements and the assertions therein on which to base the written representations.

A4. In some cases, however, management may decide to make enquiries of others who participate in preparing and presenting the financial statements and assertions therein, including individuals who have specialised knowledge relating to the matters about which written representations are requested. Such individuals may include:

- An actuary responsible for actuarially determined accounting measurements.
- Staff engineers who may have responsibility for and specialised knowledge about environmental liability measurements.
- Internal counsel who may provide information essential to provisions for legal claims.

A5. In some cases, management may include in the written representations qualifying language to the effect that representations are made to the best of its knowledge and belief. It is reasonable for the auditor to accept such wording if the auditor is satisfied that the representations are being made by those with appropriate responsibilities and knowledge of the matters included in the representations.

A6. To reinforce the need for management to make informed representations, the auditor may request that management include in the written representations confirmation that it has made such enquiries as it considered appropriate to place it in the position to be able to make the requested written representations. It is not expected that such enquiries would usually require a formal internal process beyond those already established by the entity.

Written Representations about Management's Responsibilities (Ref: Para. 10-11)

A7. Audit evidence obtained during the audit that management has fulfilled the responsibilities referred to in paragraphs 10 and 11 is not sufficient without obtaining confirmation from management that it believes that it has fulfilled those responsibilities. This is because the auditor is not able to judge solely on other audit evidence whether management has prepared and presented the financial statements and

ISA (NZ) 580

provided information to the auditor on the basis of the agreed acknowledgement and understanding of its responsibilities. For example, the auditor could not conclude that management has provided the auditor with all relevant information agreed in the terms of the audit engagement without asking it whether, and receiving confirmation that, such information has been provided.

A8. The written representations required by paragraphs 10 and 11 draw on the agreed acknowledgement and understanding of management of its responsibilities in the terms of the audit engagement by requesting confirmation that it has fulfilled them. The auditor may also ask management to reconfirm its acknowledgement and understanding of those responsibilities in written representations. This is common in certain jurisdictions, but in any event may be particularly appropriate when:

- Those who signed the terms of the audit engagement on behalf of the entity no longer have the relevant responsibilities;
- The terms of the audit engagement were prepared in a previous year;
- There is any indication that management misunderstands those responsibilities; or
- Changes in circumstances make it appropriate to do so.

Consistent with the requirement of ISA (NZ) 210,⁶ such reconfirmation of management's acknowledgement and understanding of its responsibilities is not made subject to the best of management's knowledge and belief (as discussed in paragraph A5 of this ISA (NZ)).

Considerations Specific to Public Sector Entities

A9. The mandates for audits of the financial statements of public sector entities may be broader than those of other entities. As a result, the premise, relating to management's responsibilities, on which an audit of the financial statements of a public sector entity is conducted may give rise to additional written representations. These may include written representations confirming that transactions and events have been carried out in accordance with law, regulation or other authority.

Other Written Representations (Ref: Para. 13)

Additional Written Representations about the Financial Statements

A10. In addition to the written representation required by paragraph 10, the auditor may consider it necessary to request other written representations about the financial statements. Such written representations may supplement, but do not form part of, the written representation required by paragraph 10. They may include representations about the following:

- Whether the selection and application of accounting policies are appropriate; and
- Whether matters such as the following, where relevant under the applicable financial reporting framework, have been recognised, measured, presented or disclosed in accordance with that framework:
 - Plans or intentions that may affect the carrying value or classification of

⁶ ISA (NZ) 210, paragraph 6(b).

assets and liabilities;

- Liabilities, both actual and contingent;
- Title to, or control over assets, the liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.

Additional Written Representations about Information Provided to the Auditor

A11. In addition to the written representation required by paragraph 11, the auditor may consider it necessary to request management to provide a written representation that it has communicated to the auditor all deficiencies in internal control of which management is aware.

Written Representations about Specific Assertions

A12. When obtaining evidence about, or evaluating judgements and intentions, the auditor may consider one or more of the following:

- The entity's past history in carrying out its stated intentions.
- The entity's reasons for choosing a particular course of action.
- The entity's ability to pursue a specific course of action.
- The existence or lack of any other information that might have been obtained during the course of the audit that may be inconsistent with management's judgement or intent.

A13. In addition, the auditor may consider it necessary to request management to provide written representations about specific assertions in the financial statements; in particular, to support an understanding that the auditor has obtained from other audit evidence of management's judgement or intent in relation to, or the completeness of, a specific assertion. For example, if the intent of management is important to the valuation basis for investments, it may not be possible to obtain sufficient appropriate audit evidence without a written representation from management about its intentions. Although such written representations provide necessary audit evidence, they do not provide sufficient appropriate audit evidence on their own for that assertion.

Communicating a Threshold Amount (Ref: Para. 10-11, 13)

A14. ISA (NZ) 450 requires the auditor to accumulate misstatements identified during the audit, other than those that are clearly trivial.⁷ The auditor may determine a threshold above which misstatements cannot be regarded as clearly trivial. In the same way, the auditor may consider communicating to management a threshold for purposes of the requested written representations.

Date of and Period(s) Covered by Written Representations (Ref: Para. 14)

A15. Because written representations are necessary audit evidence, the auditor's opinion cannot be expressed, and the auditor's report cannot be dated, before the date of the

⁷ ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 5.

ISA (NZ) 580

written representations. Furthermore, because the auditor is concerned with events occurring up to the date of the auditor's report that may require adjustment to or disclosure in the financial statements, the written representations are dated as near as practicable to, but not after, the date of the auditor's report on the financial statements.

- A16. In some circumstances it may be appropriate for the auditor to obtain a written representation about a specific assertion in the financial statements during the course of the audit. Where this is the case, it may be necessary to request an updated written representation.
- A17. The written representations are for all periods referred to in the auditor's report because management needs to reaffirm that the written representations it previously made with respect to the prior periods remain appropriate. The auditor and management may agree to a form of written representation that updates written representations relating to the prior periods by addressing whether there are any changes to such written representations and, if so, what they are.
- A18. Situations may arise where current management were not present during all periods referred to in the auditor's report. Such persons may assert that they are not in a position to provide some or all of the written representations because they were not in place during the period. This fact, however, does not diminish such persons' responsibilities for the financial statements as a whole. Accordingly, the requirement for the auditor to request from them written representations that cover the whole of the relevant period(s) still applies.

Form of Written Representation (Ref: Para. 15)

- A19. Written representations are required to be included in a representation letter addressed to the auditor. In some jurisdictions, however, management may be required by law or regulation to make a written public statement about its responsibilities. Although such statement is a representation to the users of the financial statements, or to relevant authorities, the auditor may determine that it is an appropriate form of written representation in respect of some or all of the representations required by paragraphs 10 or 11. Consequently, the relevant matters covered by such statement need not be included in the representation letter. Factors that may affect the auditor's determination include:
- Whether the statement includes confirmation of the fulfillment of the responsibilities referred to in paragraphs 10 and 11.
 - Whether the statement has been given or approved by those from whom the auditor requests the relevant written representations.
 - Whether a copy of the statement is provided to the auditor as near as practicable to, but not after, the date of the auditor's report on the financial statements (see paragraph 14).
- A20. A formal statement of compliance with law or regulation, or of approval of the financial statements, would not contain sufficient information for the auditor to be satisfied that all necessary representations have been consciously made. The expression of management's responsibilities in law or regulation is also not a substitute for the requested written representations.

NZA20.1 If the auditor intends to rely on some, or all, of the written representations made by management in a written public statement, the auditor ordinarily communicates their intention to place such reliance.

A21. Appendix 2 provides an illustrative example of a representation letter.

Communication with Those Charged with Governance (Ref: Para. 10-11, 13)

A22. ISA (NZ) 260 (Revised) requires the auditor to communicate with those charged with governance the written representations which the auditor has requested from management.⁸

Doubt as to the Reliability of Written Representations and Requested Written Representations Not Provided

Doubt as to the Reliability of Written Representations (Ref: Para. 16-17)

A23. In the case of identified inconsistencies between one or more written representations and audit evidence obtained from another source, the auditor may consider whether the risk assessment remains appropriate and, if not, revise the risk assessment and determine the nature, timing and extent of further audit procedures to respond to the assessed risks.

A24. Concerns about the competence, integrity, ethical values or diligence of management or about its commitment to or enforcement of these may cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted. In such a case, the auditor may consider withdrawing from the engagement, where withdrawal is possible under applicable law or regulation, unless those charged with governance put in place appropriate corrective measures. Such measures, however, may not be sufficient to enable the auditor to issue an unmodified audit opinion.

A25. ISA (NZ) 230 requires the auditor to document significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.⁹ The auditor may have identified significant issues relating to the competence, integrity, ethical values or diligence of management or about its commitment to or enforcement of these, but concluded that the written representations are nevertheless reliable. In such a case, this significant matter is documented in accordance with ISA (NZ) 230.

Written Representations about Management's Responsibilities (Ref: Para. 20)

A26. As explained in paragraph A7, the auditor is not able to judge solely on other audit evidence whether management has fulfilled the responsibilities referred to in paragraphs 10 and 11. Therefore, if as described in paragraph 20(a), the auditor concludes that the written representations about these matters are unreliable, or if management does not provide those written representations, the auditor is unable to obtain sufficient appropriate audit evidence. The possible effects on the financial statements of such inability are not confined to specific elements, accounts or items of

⁸ ISA (NZ) 260, *Communication with Those Charged with Governance*, paragraph 16(c)(ii).

⁹ ISA (NZ) 230, *Audit Documentation*, paragraphs 8(c) and 10.

ISA (NZ) 580

the financial statements and are hence pervasive. ISA (NZ) 705 requires the auditor to disclaim an opinion on the financial statements in such circumstances.¹⁰

A27. A written representation that has been modified from that requested by the auditor does not necessarily mean that management did not provide the written representation. However, the underlying reason for such modification may affect the opinion in the auditor's report. For example:

- The written representation about management's fulfillment of its responsibility for the preparation of the financial statements may state that management believes that, except for material non-compliance with a particular requirement of the applicable financial reporting framework, the financial statements are prepared in accordance with that framework. The requirement in paragraph 20 does not apply because the auditor concluded that management has provided reliable written representations. However, the auditor is required to consider the effect of the non-compliance on the opinion in the auditor's report in accordance with ISA (NZ) 705.
- The written representation about the responsibility of management to provide the auditor with all relevant information agreed in the terms of the audit engagement may state that management believes that, except for information destroyed in a fire, it has provided the auditor with such information. The requirement in paragraph 20 does not apply because the auditor concluded that management has provided reliable written representations. However, the auditor is required to consider the effects of the pervasiveness of the information destroyed in the fire on the financial statements and the effect thereof on the opinion in the auditor's report in accordance with ISA (NZ) 705.

¹⁰ ISA (NZ) 705 (Revised), paragraph 9.

ISA (NZ) 580

Appendix 1

(Ref: Para. 2)

List of ISAs (NZ) Containing Requirements for Written Representations

This appendix identifies paragraphs in other ISAs (NZ) that require subject-matter specific written representations. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statement* – paragraph [3963](#)
- ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraph 17
- ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit* – paragraph [145](#)
- ISA (NZ) 501, *Audit Evidence – Specific Considerations for Selected Items* – paragraph 12
- ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* – paragraph 35
- ISA (NZ) 550, *Related Parties* – paragraph 26
- ISA (NZ) 560, *Subsequent Events* – paragraph 9
- ISA (NZ) 570-~~(Revised)~~, *Going Concern* – paragraphs [16\(e\)](#)[39-40](#)
- ISA (NZ) 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements* – paragraph 9
- ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 13(c)

ISA (NZ) 580

[NZ] Appendix 2

(Ref: Para. A21)

Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other ISAs (NZ). It is assumed in this illustration that the applicable financial reporting framework is New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards; the requirement of ISA (NZ) 570-~~(Revised)~~¹¹ to obtain a written representation is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 20XX¹² for the purpose of expressing an opinion as to whether the financial statements comply with New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards and give a true and fair view of the financial position of ABC Limited as at December 31, 20XX and of the results of its operations and its cash flows for the year then ended.

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

Financial Statements

- We have fulfilled our responsibilities on behalf of the entity, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards; in particular the financial statements are fairly presented (*or give a true and fair view*) in accordance therewith.
- The methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in the context of the applicable financial reporting framework. (ISA (NZ) 540 (Revised))
- Related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of the applicable financial reporting framework. (ISA (NZ) 550)
- All events subsequent to the date of the financial statements which require adjustment or disclosure have been adjusted or disclosed. (ISA (NZ) 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements

¹¹ ISA (NZ) 570-~~(Revised)~~, *Going Concern*

¹² Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

ISA (NZ) 580

is attached to the representation letter. (ISA (NZ) 450)

- [Any other matters that the auditor may consider appropriate (see paragraph A10 of this ISA (NZ)).]

Information Provided

- We have provided you with¹³:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. (ISA (NZ) 240)
- We have disclosed to you all information in relation to any fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material-an effect on the financial statements. (ISA (NZ) 240)
- We have disclosed to you all information in relation to ~~allegations of fraud, or~~ suspected fraud, including allegations of fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (ISA (NZ) 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (ISA (NZ) 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ISA (NZ) 550)
- We will provide the final version of the documents determined to comprise the annual report to the auditor when available, and prior to its issuance by the entity.¹⁴ (ISA (NZ) 720 (Revised))
- [Any other matters that the auditor may consider necessary (see paragraph A11 of this ISA (NZ)).]

Director

Director

¹³ If the auditor has included other matters relating to the responsibilities of those charged with governance in the audit engagement letter in accordance with ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from those charged with governance.

¹⁴ This is only required when the other information is not available until after the date of the auditor's report.

ISA (NZ) 580

ISA (NZ) 580

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 580.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 580 *Written Representations*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

The following paragraph is additional in ISA (NZ) 580:

- In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both. (Ref: Para. NZ1.1)

The ISAs require the auditor to obtain written representations from management. The ISAs (NZ) require the auditor to obtain written representations from those charged with governance. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.

Compliance with this ISA (NZ) enables compliance with ISA 580.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 580 *Written Representations*.

ASA 580 conforms to ISA 580.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 580 <i>Written Representations</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12 (b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 600 (REVISED)

Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) (~~ISA (NZ) 600 (Revised)~~)

~~This Standard was issued on 9 June 2022 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 7 July 2022.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of group financial statements for periods beginning on or after 15 December 2023. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing (ISA) 600 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (ISA) (New Zealand) 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.~~

~~This compilation was prepared in May 2023 and incorporates amendments up to and including May 2023.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 600 (Revised) issued by the External Reporting Board in June 2022.

ISA (NZ) 600 (Revised)**~~COPYRIGHT~~**

~~© External Reporting Board (“XRB”) 2022~~

~~This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.~~

~~Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz~~

~~All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org~~

~~ISBN 978-1-99-100516-8~~

Explanatory note

This note is not part of the **Standard**.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 600 (Revised) *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 600 (Revised) issued by the External Reporting Board in June 2022 (as amended to May 2023).

The revision of ISA (NZ) 600 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the **Standard**.

The **Standard** below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This **Standard** reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]



ISA (NZ) 600 (Revised)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 600 (REVISED)

SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS
(INCLUDING THE WORK OF COMPONENT AUDITORS)*Issued by the New Zealand Auditing and Assurance Standards Board*

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ).....	1-11
Effective Date.....	12
Objectives	13
Definitions	14-15
Requirements	
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit...	16
Acceptance and Continuance	17-21
Overall Group Audit Strategy and Group Audit Plan.....	22-29
Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control	30-32
Identifying and Assessing the Risks of Material Misstatement.....	33-34
Materiality	35-36
Responding to the Assessed Risks of Material Misstatement	37-44
<u>Fraud or Suspected Fraud</u>	<u>45</u>
Evaluating the Component Auditor's Communications and the Adequacy of Their Work	~~45-48~~ <u>46-49</u>
Subsequent Events	~~49-50~~ <u>50-51</u>
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained.....	~~51-52~~ <u>52-53</u>
Auditor's Report	~~53~~ <u>54</u>
Communication with Group Management and Those Charged with Governance of the Group.....	~~54-58~~ <u>55-59</u>

ISA (NZ) 600 (Revised)

Documentation	5960
Application and Other Explanatory Material	
Scope of this ISA (NZ)	A1-A18
Definitions	A19-A28
Leadership Responsibilities for Managing and Achieving Quality on a Group Audit...	A29-A31
Acceptance and Continuance	A32-A46
Overall Group Audit Strategy and Group Audit Plan	A47-A87
Understanding the Group and Its Environment, the Applicable Financial Reporting	
Framework and the Group's System of Internal Control	A88-A107
Identifying and Assessing the Risks of Material Misstatement	A108-A115
Materiality	A116-A123
Responding to the Assessed Risks of Material Misstatement	A124-A143
Evaluating the Component Auditor's Communication and the Adequacy of Their	
Work	A144-A149
Subsequent Events	A150
Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained	A151-A156
Auditor's Report	A157-A158
Communication with Group Management and Those Charged with Governance	
of the Group	A159-A165
Documentation	A166-A182
Appendix 1: Illustration of Independent Auditor's Report When the Group Auditor is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion (Paragraph A45)	
Appendix 2: Understanding the Group's System of Internal Control (Paragraph A88)	
Appendix 3: Examples of Events or Conditions That May Give Rise to Risks of Material Misstatement of the Group Financial Statements (Paragraph A112)	

International Standard on Auditing (New Zealand) (ISA (NZ)) 600 (Revised), *“Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)”* should be read in conjunction with ISA (NZ) 200, *“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)”*.

ISA (NZ) 600 (Revised)

History of Amendments

Table of pronouncements – ISA (NZ) 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

This table lists the pronouncements establishing and amending ISA (NZ) 600 (Revised).

Pronouncements	Date approved	Effective date <u>Application</u>
International Standard on Auditing (New Zealand) 600 (Revised)	~~June 2022~~ <u>October 2025</u>	~~Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 15 December 2023.~~
~~Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards~~	~~May 2023~~	~~Mandatory date of 1 January 2023.~~

~~Table of Amended Paragraphs in ISA (NZ) 600 (Revised)~~		
~~Paragraph affected~~	~~How affected~~	~~By...[date]~~
~~Appendix 1~~	~~Amended~~	~~Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards [May 2023]~~

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 600 (Revised)

Introduction**Scope of this ISA (NZ)**

1. The International Standards on Auditing (New Zealand) (ISAs (NZ)) apply to an audit of group financial statements (a group audit). This ISA (NZ) deals with special considerations that apply to a group audit, including in those circumstances when component auditors are involved. The requirements and guidance in this ISA (NZ) refer to, or expand on, the application of other relevant ISAs (NZ) to a group audit, in particular ISA (NZ) 220 (Revised),² ISA (NZ) 230,³ ISA (NZ) 300,⁴ ISA (NZ) 315 (Revised 2019),⁵ and ISA (NZ) 330.⁶ (Ref: Para. A1–A2)
2. Group financial statements include the financial information of more than one entity or business unit through a consolidation process, as described in paragraph 14(k). The term consolidation process as used in this ISA (NZ) refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions. (Ref: Para. A3–A5, A27)
3. As explained in ISA (NZ) 220 (Revised),⁷ this ISA (NZ), adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this ISA (NZ) may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service centre at a remote location.

Groups and Components

4. A group may be organised in various ways. For example, a group may be organised by legal or other entities (e.g., a parent and one or more subsidiaries, joint ventures, or investments accounted for by the equity method). Alternatively, the group may be organised by geography, by other economic units (including branches or divisions), or by functions or business activities. In this ISA (NZ), these different forms of organisation are collectively referred to as “entities or business units.” (Ref: Para. A6)
5. The group auditor determines an appropriate approach to planning and performing audit procedures to respond to the assessed risks of material misstatement of the group financial statements. For this purpose, the group auditor uses professional judgement in determining the components at which audit work will be performed. This determination is based on the group auditor’s understanding of the group and its environment, and other factors such as

² ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*

³ ISA (NZ) 230, *Audit Documentation*

⁴ ISA (NZ) 300, *Planning an Audit of Financial Statements*

⁵ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁶ ISA (NZ) 330, *The Auditor’s Responses to Assessed Risks*

⁷ ISA (NZ) 220 (Revised), paragraph A1

ISA (NZ) 600 (Revised)

the ability to perform audit procedures centrally, the presence of shared service centres, or the existence of common information systems and internal control. (Ref: Para. A7–A9)

Involvement of Component Auditors

6. ISA (NZ) 220 (Revised)⁸ requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. In a group audit, such resources may include component auditors. Therefore, this ISA (NZ) requires the group auditor to determine the nature, timing and extent of involvement of component auditors.
7. The group auditor may involve component auditors to provide information, or to perform audit work, to fulfill the requirements of this ISA (NZ). Component auditors may have greater experience with, and a more in-depth knowledge of, the components and their environments (including local laws and regulations, business practices, language, and culture) than the group auditor. Accordingly, component auditors can be, and often are, involved in all phases of the group audit. (Ref: Para. A10–A11)
8. Audit risk is a function of the risks of material misstatement and detection risk.⁹ Detection risk in a group audit includes the risk that a component auditor may not detect a misstatement in the financial information of a component that could cause a material misstatement of the group financial statements, and that the group auditor may not detect this misstatement. Accordingly, this ISA (NZ) requires sufficient and appropriate involvement by the group engagement partner or group auditor, as applicable, in the work of component auditors and emphasises the importance of two-way communication between the group auditor and component auditors. In addition, this ISA (NZ) explains the matters that the group auditor takes into account when determining the nature, timing and extent of the direction and supervision of component auditors and the review of their work. (Ref: Para. A12–A13)

Professional Scepticism

9. In accordance with ISA (NZ) 200,¹⁰ the engagement team is required to plan and perform the group audit with professional scepticism and to exercise professional judgement. The appropriate exercise of professional scepticism may be demonstrated through the actions and communications of the engagement team, including emphasizing the importance of each engagement team member exercising professional scepticism throughout the group audit. Such actions and communications may include specific steps to mitigate impediments that may impair the appropriate exercise of professional scepticism. (Ref: Para. A14–A18)

Scalability

10. This ISA (NZ) is intended for all group audits, regardless of size or complexity. However, the requirements of this ISA (NZ) are intended to be applied in the context of the nature and circumstances of each group audit. For example, when a group audit is carried out entirely

⁸ ISA (NZ) 220 (Revised), paragraph 25

⁹ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph A34

¹⁰ ISA (NZ) 200, paragraphs [15–16](#)[17–18](#)

ISA (NZ) 600 (Revised)

by the group auditor, some requirements in this ISA (NZ) are not relevant because they are conditional on the involvement of component auditors. This may be the case when the group auditor is able to perform audit procedures centrally or is able to perform procedures at the components without involving component auditors. The guidance in paragraphs A119 and A120 also may be helpful in applying this ISA (NZ) in these circumstances.

Responsibilities of the Group Engagement Partner and Group Auditor

11. The group engagement partner remains ultimately responsible, and therefore accountable, for compliance with the requirements of this ISA (NZ). The term “the group engagement partner shall take responsibility for...” or “the group auditor shall take responsibility for...” is used for those requirements when the group engagement partner or group auditor, respectively, is permitted to assign the design or performance of procedures, tasks or actions to other appropriately skilled or suitably experienced members of the engagement team, including component auditors. For other requirements, this ISA (NZ) expressly intends that the requirement or responsibility be fulfilled by the group engagement partner or group auditor, as applicable, and the group engagement partner or group auditor may obtain information from the firm or other members of the engagement team. (Ref: Para. A29)

Effective Date

12. ~~This ISA (NZ) is effective for audits of group financial statements for periods beginning on or after 15 December 2023. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]~~[Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]
- NZ12.1 This ~~ISA (NZ) Standard~~ supersedes—repeals ISA (NZ) 600 ~~(Revised)~~ Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) issued in June 2022.

Objectives

13. The objectives of the auditor are to:
 - (a) With respect to the acceptance and continuance of the group audit engagement, determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements;
 - (b) Identify and assess the risks of material misstatement of the group financial statements, whether due to fraud or error, and plan and perform further audit procedures to appropriately respond to those assessed risks;
 - (c) Be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work; and
 - (d) Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including with respect to the work performed by component auditors, as a basis for forming an opinion on the group financial statements.

ISA (NZ) 600 (Revised)**Definitions**

14. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:

- (a) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. (Ref: Para. A19)
- (b) Component – An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for purposes of planning and performing audit procedures in a group audit. (Ref: Para. A20)
- (c) Component auditor – An auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team¹¹ for a group audit. (Ref: Para. A21–A23)
- (d) Component management – Management responsible for a component. (Ref: Para. A24)
- (e) Component performance materiality – An amount set by the group auditor to reduce aggregation risk to an appropriately low level for purposes of planning and performing audit procedures in relation to a component.
- (f) Group – A reporting entity for which group financial statements are prepared.
- (g) Group audit – The audit of group financial statements.
- (h) Group auditor – The group engagement partner and members of the engagement team other than component auditors. The group auditor is responsible for:
 - (i) Establishing the overall group audit strategy and group audit plan;
 - (ii) Directing and supervising component auditors and reviewing their work;
 - (iii) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.
- (i) Group audit opinion – The audit opinion on the group financial statements.
- (j) Group engagement partner – The engagement partner¹² who is responsible for the group audit. (Ref: Para. A25)
- (k) Group financial statements – Financial statements that include the financial information of more than one entity or business unit through a consolidation process. For purposes of this ISA (NZ), a consolidation process includes: (Ref: Para. A26–A28)
 - (i) Consolidation, proportionate consolidation, or an equity method of accounting;
 - (ii) The presentation in combined financial statements of the financial information of entities or business units that have no parent but are under common control or common management; or
 - (iii) The aggregation of the financial information of entities or business units such as branches or divisions.

¹¹ ISA (NZ) 220 (Revised), paragraph 12(d)

¹² ISA (NZ) 220 (Revised), paragraph 12(a)

ISA (NZ) 600 (Revised)

- (l) Group management – Management responsible for the preparation of the group financial statements.
 - (m) Group performance materiality – Performance materiality¹³ in relation to the group financial statements as a whole, as determined by the group auditor.
15. Reference in this ISA (NZ) to “the applicable financial reporting framework” means the financial reporting framework that applies to the group financial statements.

Requirements**Leadership Responsibilities for Managing and Achieving Quality on a Group Audit**

16. In applying ISA (NZ) 220 (Revised),¹⁴ the group engagement partner is required to take overall responsibility for managing and achieving quality on the group audit engagement. In doing so, the group engagement partner shall: (Ref: Para. A29–A30)
- (a) Take responsibility for creating an environment for the group audit engagement that emphasizes the expected behaviour of engagement team members. (Ref: Para. A31)
 - (b) Be sufficiently and appropriately involved throughout the group audit engagement, including in the work of component auditors, such that the group engagement partner has the basis for determining whether the significant judgements made, and the conclusions reached, are appropriate given the nature and circumstances of the group audit engagement.

Acceptance and Continuance

17. Before accepting or continuing the group audit engagement, the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements. (Ref: Para. A32–A35)
18. If, after the acceptance or continuance of the group audit engagement, the group engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A36)

Terms of the Engagement

19. In applying ISA (NZ) 210,¹⁵ the group auditor shall obtain the agreement of group management that it acknowledges and understands its responsibility to provide the engagement team with: (Ref: Para. A37)
- (a) Access to all information of which group management is aware that is relevant to the preparation of the group financial statements such as records, documentation and other matters;
 - (b) Additional information that the engagement team may request from group management

¹³ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraphs 9 and 11

¹⁴ ISA (NZ) 220 (Revised), paragraph 13

¹⁵ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraphs 6(b) and 8(b)

ISA (NZ) 600 (Revised)

or component management for the purpose of the group audit; and

- (c) Unrestricted access to persons within the group from whom the engagement team determines it necessary to obtain audit evidence.

Restrictions on Access to Information or People Outside the Control of Group Management

- 20. If the group engagement partner concludes that group management cannot provide the engagement team with access to information or unrestricted access to persons within the group due to restrictions that are outside the control of group management, the group engagement partner shall consider the possible effects on the group audit. (Ref: Para. A38–A46)

Restrictions on Access to Information or People Imposed by Group Management

- 21. If the group engagement partner concludes that: (Ref: Para. A43–A46)
 - (a) It will not be possible for the group auditor to obtain sufficient appropriate audit evidence due to restrictions imposed by group management; and
 - (b) The possible effect of this limitation will result in a disclaimer of opinion on the group financial statements,
 the group engagement partner shall either:
 - (i) In the case of an initial engagement, not accept the engagement, or, in the case of a recurring engagement, withdraw from the engagement, when withdrawal is possible under applicable law or regulation; or
 - (ii) When law or regulation prohibit an auditor from declining an engagement or when withdrawal from an engagement is not otherwise possible, having performed the audit of the group financial statements to the extent possible, disclaim an opinion on the group financial statements.

Overall Group Audit Strategy and Group Audit Plan

- 22. In applying ISA (NZ) 300,¹⁶ the group auditor shall establish, and update as necessary, an overall group audit strategy and group audit plan. In doing so, the group auditor shall determine: (Ref: Para. A47–A50)
 - (a) The components at which audit work will be performed; and (Ref: Para. A51)
 - (b) The resources needed to perform the group audit engagement, including the nature, timing and extent to which component auditors are to be involved. (Ref: Para. A52–A56)

Considerations When Component Auditors Are Involved

- 23. In establishing the overall group audit strategy and group audit plan, the group engagement partner shall evaluate whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor. (Ref: Para. A57)

¹⁶ ISA (NZ) 300, paragraphs 7–10A

ISA (NZ) 600 (Revised)

24. As part of the evaluation in paragraph 23, the group auditor shall request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor. (Ref: Para. A58)

Relevant Ethical Requirements, Including Those Related to Independence

25. In applying ISA (NZ) 220 (Revised),¹⁷ the group engagement partner shall take responsibility for: (Ref: Para. A59–A60, A87)
- (a) Component auditors having been made aware of relevant ethical requirements that are applicable given the nature and circumstances of the group audit engagement; and
 - (b) Confirming whether the component auditors understand and will comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement.

Engagement Resources

26. In applying ISA (NZ) 220 (Revised),¹⁸ the group engagement partner shall: (Ref: Para. A61–A68)
- (a) Determine that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the component; and
 - (b) If information about the results of the monitoring and remediation process or external inspections related to the component auditor has been provided by the group auditor's firm or has otherwise been made available to the group engagement partner, determine the relevance of such information to the group auditor's determination in paragraph 26(a).
27. The group auditor shall obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor if:
- (a) The component auditor does not comply with the relevant ethical requirements, including those related to independence, that apply to the group audit engagement;¹⁹ or (Ref: Para. A69–A70)
 - (b) The group engagement partner has serious concerns about the matters in paragraphs 23–26. (Ref: Para. A71)

Engagement Performance

28. In applying ISA (NZ) 220 (Revised),²⁰ the group engagement partner shall take responsibility for the nature, timing and extent of direction and supervision of component auditors and the review of their work, taking into account: (Ref: Para. A72–A77)

¹⁷ ISA (NZ) 220 (Revised), paragraph 17

¹⁸ ISA (NZ) 220 (Revised), paragraphs 25–26

¹⁹ ISA (NZ) 200, paragraph [4416](#)

²⁰ ISA (NZ) 220 (Revised), paragraph 29

ISA (NZ) 600 (Revised)

- (a) Areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with ISA (NZ) 315 (Revised 2019); and
- (b) Areas in the audit of the group financial statements that involve significant judgement.

Communications with Component Auditors

29. The group auditor shall communicate with component auditors about their respective responsibilities and the group auditor's expectations, including an expectation that communications between the group auditor and component auditors take place at appropriate times throughout the group audit. (Ref: Para. A78–A87)

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

30. In applying ISA (NZ) 315 (Revised 2019),²¹ the group auditor shall take responsibility for obtaining an understanding of the following: (Ref: Para. A88–A92)
- (a) The group and its environment, including: (Ref: Para. A93–A95)
 - (i) The group's organisational structure and its business model, including:
 - a. The locations in which the group has its operations or activities;
 - b. The nature of the group's operations or activities and the extent to which they are similar across the group; and
 - c. The extent to which the group's business model integrates the use of information technology (IT);
 - (ii) Regulatory factors impacting the entities and business units in the group; and
 - (iii) The measures used internally and externally to assess the financial performance of the entities or business units;
 - (b) The applicable financial reporting framework and the consistency of accounting policies and practices across the group; and
 - (c) The group's system of internal control, including:
 - (i) The nature and extent of commonality of controls; (Ref: Para. A96–A99, A102)
 - (ii) Whether, and if so, how, the group centralises activities relevant to financial reporting; (Ref: Para. A100–A102)
 - (iii) The consolidation process used by the group, including sub-consolidations, if any, and consolidation adjustments; and
 - (iv) How group management communicates significant matters that support the preparation of the group financial statements and related financial reporting responsibilities in the information system and other components of the group's

²¹ ISA (NZ) 315 (Revised 2019), paragraphs 19–27

ISA (NZ) 600 (Revised)

system of internal control to management of entities or business units. (Ref: Para. A103–A105)

Considerations When Component Auditors Are Involved

31. The group auditor shall communicate to component auditors on a timely basis: (Ref: Para. A106)
 - (a) Matters that the group auditor determines to be relevant to the component auditor's design or performance of risk assessment procedures for purposes of the group audit;
 - (b) In applying ISA (NZ) 550,²² related party relationships or transactions identified by group management, and any other related parties of which the group auditor is aware, that are relevant to the work of the component auditor; and (Ref: Para. A107)
 - (c) In applying ISA (NZ) 570–(Revised),²³ events or conditions identified by group management or the group auditor that may cast significant doubt on the group's ability to continue as a going concern that are relevant to the work of the component auditor.
32. The group auditor shall request component auditors to communicate on a timely basis:
 - (a) Matters related to the financial information of the component that the component auditor determines to be relevant to the identification and assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error;
 - (b) Related party relationships not previously identified by group management or the group auditor; and (Ref: Para. A107)
 - (c) Any events or conditions identified by the component auditor that may cast significant doubt on the group's ability to continue as a going concern.

Identifying and Assessing the Risks of Material Misstatement

33. In applying ISA (NZ) 315 (Revised 2019),²⁴ based on the understanding obtained in paragraph 30, the group auditor shall take responsibility for the identification and assessment of the risks of material misstatement of the group financial statements, including with respect to the consolidation process. (Ref: Para. A108–A113)

Considerations When Component Auditors Are Involved

34. In applying ISA (NZ) 315 (Revised 2019),²⁵ the group auditor shall evaluate whether the audit evidence obtained from the risk assessment procedures performed by the group auditor and component auditors provides an appropriate basis for the identification and assessment of the risks of material misstatement of the group financial statements. (Ref: Para. A114–A115)

²² ISA (NZ) 550, *Related Parties*, paragraph 17

²³ ISA (NZ) 570–(Revised), *Going Concern*

²⁴ ISA (NZ) 315 (Revised 2019), paragraphs 28–34

²⁵ ISA (NZ) 315 (Revised 2019), paragraph 35

ISA (NZ) 600 (Revised)**Materiality**

35. In applying ISA (NZ) 320²⁶ and ISA (NZ) 450,²⁷ when classes of transactions, account balances or disclosures in the group financial statements are disaggregated across components, for purposes of planning and performing audit procedures, the group auditor shall determine:
- (a) Component performance materiality. To address aggregation risk, such amount shall be lower than group performance materiality. (Ref: Para. A116–A120)
 - (b) The threshold above which misstatements identified in the component financial information are to be communicated to the group auditor. Such threshold shall not exceed the amount regarded as clearly trivial to the group financial statements. (Ref: Para. A121)

Considerations When Component Auditors Are Involved

36. The group auditor shall communicate to the component auditor the amounts determined in accordance with paragraph 35. (Ref: Para: A122–A123)

Responding to the Assessed Risks of Material Misstatement

37. In applying ISA (NZ) 330,²⁸ the group auditor shall take responsibility for the nature, timing and extent of further audit procedures to be performed, including determining the components at which to perform further audit procedures and the nature, timing and extent of the work to be performed at those components. (Ref: Para. A124–A139)

Consolidation Process

38. The group auditor shall take responsibility for designing and performing further audit procedures to respond to the assessed risks of material misstatement of the group financial statements arising from the consolidation process. This shall include: (Ref: Para. A140)
- (a) Evaluating whether all entities and business units have been included in the group financial statements as required by the applicable financial reporting framework and, if applicable, for designing and performing further audit procedures on sub-consolidations;
 - (b) Evaluating the appropriateness, completeness and accuracy of consolidation adjustments and reclassifications; (Ref: Para. A141)
 - (c) Evaluating whether management's judgements made in the consolidation process give rise to indicators of possible management bias; and
 - (d) Responding to assessed risks of material misstatement due to fraud arising from the consolidation process.
39. If the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements, the group auditor

²⁶ ISA (NZ) 320, paragraph 11

²⁷ ISA (NZ) 450, *Evaluation of Misstatements Identified During the Audit*, paragraph 5

²⁸ ISA (NZ) 330, paragraphs 6–7

ISA (NZ) 600 (Revised)

shall evaluate whether the financial information has been appropriately adjusted for purposes of preparing and presenting the group financial statements.

40. If the group financial statements include the financial information of an entity or business unit with a financial reporting period-end that differs from that of the group, the group auditor shall take responsibility for evaluating whether appropriate adjustments have been made to that financial information in accordance with the applicable financial reporting framework.

Considerations When Component Auditors Are Involved

41. When the group auditor involves component auditors in the design or performance of further audit procedures, the group auditor shall communicate with the component auditor about matters that the group auditor or component auditor determine to be relevant to the design of responses to the assessed risks of material misstatement of the group financial statements.
42. For areas of higher assessed risks of material misstatement of the group financial statements, or significant risks identified in accordance with ISA (NZ) 315 (Revised 2019), on which a component auditor is determining the further audit procedures to be performed, the group auditor shall evaluate the appropriateness of the design and performance of those further audit procedures. (Ref: Para. A142)
43. When component auditors perform further audit procedures on the consolidation process, including on sub-consolidations, the group auditor shall determine the nature and extent of direction and supervision of component auditors and the review of their work. (Ref: Para. A143)
44. The group auditor shall determine whether the financial information identified in the component auditor's communication (see paragraph 465(a)) is the financial information that is incorporated in the group financial statements.

Fraud or Suspected Fraud

45. In applying ISA (NZ) 240,²⁹ the group auditor shall take responsibility for obtaining an understanding of identified fraud or suspected fraud.

Evaluating the Component Auditor's Communications and the Adequacy of Their Work

~~45.46.~~ **45.**—The group auditor shall request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. Such communication shall include: (Ref: Para. A144)

- (a) Identification of the financial information on which the component auditor has been requested to perform audit procedures;
- (b) Whether the component auditor has performed the work requested by the group auditor;
- (c) Whether the component auditor has complied with the relevant ethical requirements,

²⁹ [ISA \(NZ\) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraph 55](#)

ISA (NZ) 600 (Revised)

including those related to independence, that apply to the group audit engagement;

- (d) Information about instances of non-compliance with laws or regulations;
- (e) Corrected and uncorrected misstatements of the component financial information identified by the component auditor and that are above the threshold communicated by the group auditor in accordance with paragraph 36; (Ref: Para. A145)
- (f) Indicators of possible management bias;
- (g) Description of any deficiencies in the system of internal control identified in connection with the audit procedures performed;
- (h) Fraud or suspected fraud involving:
 - (i) ~~Component management;~~
 - (ii) ~~Employees who have significant roles in the group's system of internal control at the component;~~ or
 - ~~(i)(iii) Others, except for matters that are clearly inconsequential where the fraud resulted in a material misstatement of to~~ the component financial information;
- (i) Other significant matters that the component auditor communicated or expects to communicate to component management or those charged with governance of the component;
- (j) Any other matters that may be relevant to the group audit, or that the component auditor determines are appropriate to draw to the attention of the group auditor, including exceptions noted in the written representations that the component auditor requested from component management; and
- (k) The component auditor's overall findings or conclusions. (Ref: Para. A146)

~~46.47.~~ 46. The group auditor shall:

- (a) Discuss significant matters arising from communications with the component auditor, including those in accordance with paragraph ~~45~~46, with the component auditor, component management or group management, as appropriate; and
- (b) Evaluate whether communications with the component auditor are adequate for the group auditor's purposes. If such communications are not adequate for the group auditor's purposes, the group auditor shall consider the implications for the group audit. (Ref: Para. A147)

~~47.48.~~ 47. The group auditor shall determine whether, and the extent to which, it is necessary to review additional component auditor audit documentation. In making this determination, the group auditor shall consider: (Ref: Para. A148–A149)

- (a) The nature, timing and extent of the work performed by the component auditor;
- (b) The competence and capabilities of the component auditor as determined in accordance with paragraph 26(a); and
- (c) The direction and supervision of the component auditor and review of their work.

ISA (NZ) 600 (Revised)

~~48.49.~~ **48.**—If the group auditor concludes that the work of the component auditor is not adequate for the group auditor’s purposes, the group auditor shall determine what additional audit procedures are to be performed, and whether they are to be performed by a component auditor or by the group auditor.

Subsequent Events

~~49.50.~~ **49.**—In applying ISA (NZ) 560,³⁰ the group auditor shall take responsibility for performing procedures, including, as appropriate, requesting component auditors to perform procedures, designed to identify events that may require adjustment of, or disclosure in, the group financial statements. (Ref: Para. A150)

Considerations When Component Auditors Are Involved

~~50.51.~~ **50.**—The group auditor shall request the component auditors to notify the group auditor if they become aware of subsequent events that may require adjustment of, or disclosure in, the group financial statements. (Ref: Para. A150)

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

~~51.52.~~ **51.**—In applying ISA (NZ) 330,³¹ the group auditor shall evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed, including from the work performed by component auditors, on which to base the group audit opinion. (Ref: Para. A151–A155)

~~52.53.~~ **52.**—The group engagement partner shall evaluate the effect on the group audit opinion of any uncorrected misstatements (whether identified by the group auditor or communicated by component auditors) and any instances when there has been an inability to obtain sufficient appropriate audit evidence. (Ref: Para. A156)

Auditor’s Report

~~53.54.~~ **53.**—The auditor’s report on the group financial statements shall not refer to a component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor’s report shall indicate that the reference does not diminish the group engagement partner’s or the group engagement partner’s firm’s responsibility for the group audit opinion. (Ref: Para. A157–A158)

Communication with Group Management and Those Charged with Governance of the Group*Communication with Group Management*

~~54.55.~~ **54.**—The group auditor shall communicate with group management an overview of the planned scope and timing of the audit, including an overview of the work to be performed at components of the group. (Ref: Para. A159)

~~55.56.~~ **55.**—If fraud or suspected fraud has been identified by the group auditor or brought to

³⁰ ISA (NZ) 560, *Subsequent Events*, paragraphs 6–7

³¹ ISA (NZ) 330, paragraph 26

ISA (NZ) 600 (Revised)

its attention by a component auditor (see paragraph 465(h)), or information indicates that a fraud or suspected fraud may exist, the group auditor shall communicate this on a timely basis to the appropriate level of group management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities. (Ref: Para. A160)

~~56,57.~~ 56.—A component auditor may be required by statute, regulation or other reasons to express an audit opinion on the financial statements of an entity or business unit that forms part of the group. In that case, the group auditor shall request group management to inform management of the entity or business unit of any matter of which the group auditor becomes aware that may be significant to the financial statements of the entity or business unit, but of which management of the entity or business unit may be unaware. If group management refuses to communicate the matter to management of the entity or business unit, the group auditor shall discuss the matter with those charged with governance of the group. If the matter remains unresolved, the group auditor, subject to legal and professional confidentiality considerations, shall consider whether to advise the component auditor not to issue the auditor's report on the financial statements of the entity or business unit until the matter is resolved. (Ref: Para. A161–A162)

Communication with Those Charged with Governance of the Group

~~57,58.~~ 57.—The group auditor shall communicate the following matters with those charged with governance of the group, in addition to those required by ISA (NZ) 260 (Revised)³² and other ISAs (NZ): (Ref: Para. A163)

- (a) An overview of the work to be performed at the components of the group and the nature of the group auditor's planned involvement in the work to be performed by component auditors. (Ref: Para. A164)
- (b) Instances when the group auditor's review of the work of a component auditor gave rise to a concern about the quality of that component auditor's work, and how the group auditor addressed the concern.
- (c) Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.
- (d) Fraud or suspected fraud involving:
 - (i) ~~g~~Group management, or component management;
 - (ii) ~~e~~Employees who have significant roles in the group's system of internal control; or
 - ~~(i)(iii)~~ oOthers, except for matters that are clearly inconsequential when the fraud resulted in a material misstatement of the group financial statements.

Communication of Identified Deficiencies in Internal Control

³² ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

ISA (NZ) 600 (Revised)

~~58.59.~~ ~~58.~~—In applying ISA (NZ) 265,³³ the group auditor shall determine whether any identified deficiencies in the group's system of internal control are required to be communicated to those charged with governance of the group or group management. In making this determination, the group auditor shall consider deficiencies in internal control that have been identified by component auditors and communicated to the group auditor in accordance with paragraph ~~4546~~(g). (Ref: Para. A165)

Documentation

~~59.60.~~ ~~59.~~—In accordance with ISA (NZ) 230,³⁴ the audit documentation for a group audit engagement needs to be sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of audit procedures performed, the evidence obtained, and the conclusions reached with respect to significant matters arising during the group audit. In applying ISA (NZ) 230,³⁵ the group auditor shall include in the audit documentation: (Ref: Para. A166–A169, A179–A182)

- (a) Significant matters related to restrictions on access to people or information within the group that were considered before deciding to accept or continue the engagement, or that arose subsequent to acceptance or continuance, and how such matters were addressed.
- (b) The basis for the group auditor's determination of components for purposes of planning and performing the group audit. (Ref: Para. A170)
- (c) The basis for the determination of component performance materiality, and the threshold for communicating misstatements in the component financial information to the group auditor.
- (d) The basis for the group auditor's determination that component auditors have the appropriate competence and capabilities, including sufficient time, to perform the assigned audit procedures at the components. (Ref: Para. A171)
- (e) Key elements of the understanding of the group's system of internal control in accordance with paragraph 30(c).
- (f) The nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work, including, as applicable, the group auditor's review of additional component auditor audit documentation in accordance with paragraph ~~4748~~. (Ref: Para. A172–A178)
- (g) Matters related to communications with component auditors, including:
 - (i) Matters, if any, related to fraud or suspected fraud, related parties or going concern communicated in accordance with paragraph 32.
 - (ii) Matters relevant to the group auditor's conclusion with regard to the group audit, in accordance with paragraph ~~4546~~, including how the group auditor has

³³ ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

³⁴ ISA (NZ) 230, paragraph 8

³⁵ ISA (NZ) 230, paragraphs 1–3, 9–11, A6–A7 and Appendix

ISA (NZ) 600 (Revised)

addressed significant matters discussed with component auditors, component management or group management.

- (h) The group auditor's evaluation of, and response to, findings or conclusions of the component auditors about matters that could have a material effect on the group financial statements.

Application and Other Explanatory Material

Scope of this ISA (NZ) (Ref: Para. 1–2)

- A1. This ISA (NZ) also deals with the special considerations for the group engagement partner or group auditor, as applicable, in applying the requirements and guidance in ISA (NZ) 220 (Revised), including for the direction and supervision of component auditors and the review of their work.
- A2. PES 3³⁶ addresses the engagements for which an engagement quality review is required to be performed. PES 4³⁷ deals with the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performing and documenting an engagement quality review, including for a group audit.
- A3. An entity or business unit of a group may also prepare its own group financial statements that incorporate the financial information of those entities or business units it encompasses (that is, a sub-group). This ISA (NZ) applies to an audit of the group financial statements of such sub-groups performed for statutory, regulatory or other reasons.
- A4. A single legal entity may be organised with more than one business unit, for example, a company with operations in multiple locations, such as a bank with multiple branches. When those business units have characteristics such as separate locations, separate management, or separate information systems (including a separate general ledger) and the financial information is aggregated in preparing the single legal entity's financial statements, such financial statements meet the definition of group financial statements because they include the financial information of more than one entity or business unit through a consolidation process.
- A5. In some cases, a single legal entity may configure its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. In these circumstances, the entity's financial statements are not group financial statements because there is no aggregation of the financial information of more than one entity or business unit through a consolidation process. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of this ISA (NZ).

³⁶ Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

³⁷ Professional and Ethical Standard (PES) 4, *Engagement Quality Reviews*

ISA (NZ) 600 (Revised)*Groups and Components (Ref: Para. 4–5)*

- A6. The group's information system, including its financial reporting process, may or may not be aligned with the group's organisational structure. For example, a group may be organised according to its legal structure, but its information system may be organised by function, process, product or service (or by groups of products or services), or geographic locations for management or reporting purposes.
- A7. Based on the understanding of the group's organisational structure and information system, the group auditor may determine that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. For example, a group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these circumstances, the group auditor may decide to treat these three legal entities as one component.
- A8. A group may also centralise activities or processes that are applicable to more than one entity or business unit within the group, for example through the use of a shared service centre. When such centralised activities are relevant to the group's financial reporting process, the group auditor may determine that the shared service centre is a component.
- A9. Another consideration that may be relevant to the group auditor's determination of components is how management has determined operating segments in accordance with the disclosure requirements of the applicable financial reporting framework.³⁸

Involvement of Component Auditors (Ref: Para. 7–8)

- A10. Component auditors may perform an audit of the financial statements of a component, whether for statutory, regulatory or other reasons, particularly when a component is a legal entity. When a component auditor is also performing or has completed an audit of the component financial statements, the group auditor may be able to use audit work performed on the component financial statements, provided the group auditor is satisfied that such work is appropriate for purposes of the group audit. In addition, component auditors may adapt the work performed on the audit of the component financial statements to also meet the needs of the group auditor. In any event, the requirements of this ISA (NZ) apply, including those relating to the direction and supervision of component auditors and the review of their work.
- A11. In accordance with ISA (NZ) 220 (Revised),³⁹ the engagement partner is required to determine that the approach to direction, supervision and review is responsive to the nature and circumstances of the audit engagement. Paragraph A76 provides examples of different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work, and may be helpful in circumstances when the group auditor plans to use the audit work from an audit of component financial statements that has already been completed.

³⁸ See, for example, New Zealand Equivalent to International Financial Reporting Standard (NZ IFRS) 8, *Operating Segments*

³⁹ ISA (NZ) 220 (Revised), paragraph 30(b)

ISA (NZ) 600 (Revised)

- A12. As explained in ISA (NZ) 200,⁴⁰ detection risk relates to the nature, timing and extent of the auditor's procedures that are determined by the auditor to reduce audit risk to an acceptably low level. Detection risk is a function not only of the effectiveness of an audit procedure but also the application of that procedure by the auditor. Therefore, detection risk is influenced by matters such as adequate planning, the assignment of appropriate resources to the engagement, the exercise of professional scepticism, and the supervision and review of the audit work performed.
- A13. Detection risk is a broader concept than aggregation risk as described in paragraphs 14(a) and A19. In a group audit, there may be a higher probability that the aggregate of uncorrected and undetected misstatements may exceed materiality for the group financial statements as a whole because audit procedures may be performed separately on the financial information of components across the group. Accordingly, component performance materiality is set by the group auditor to reduce aggregation risk to an appropriately low level.

Professional Scepticism (Ref: Para. 9)

- A14. ISA (NZ) 220 (Revised)⁴¹ provides examples of the impediments to the exercise of professional scepticism at the engagement level, including unconscious auditor biases that may impede the exercise of professional scepticism when designing and performing audit procedures and evaluating audit evidence. ISA (NZ) 220 (Revised) also provides possible actions that the engagement team may take to mitigate impediments to the exercise of professional scepticism at the engagement level.
- A15. Requirements and relevant application material in ISA (NZ) 315 (Revised 2019),⁴² ISA (NZ) 540 (Revised)⁴³ and other ISAs (NZ) address the exercise of professional scepticism, and include examples of how documentation may help provide evidence of the auditor's exercise of professional scepticism.
- A16. All members of the engagement team are required to exercise professional scepticism throughout the group audit. The group auditor's direction and supervision of engagement team members, including component auditors, and the review of their work, may inform the group auditor about whether the engagement team has appropriately exercised professional scepticism.
- A17. The exercise of professional scepticism in a group audit may be affected by matters such as the following:
- Component auditors in different locations may be subject to varying cultural influences, which may affect the nature of the biases to which they are subject.
 - The complex structure of some groups may introduce factors that give rise to increased susceptibility to risks of material misstatement. In addition, an overly complex organisational structure may be a fraud risk factor in accordance with ISA (NZ) 240⁴⁴

⁴⁰ ISA (NZ) 200, paragraph [A45A53](#)

⁴¹ ISA (NZ) 220 (Revised), paragraphs A34–A36

⁴² ISA (NZ) 315 (Revised 2019), paragraph A238

⁴³ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph A11

⁴⁴ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, Appendix 1

ISA (NZ) 600 (Revised)

and therefore may require additional time or expertise to understand the business purpose and activities of certain entities or business units.

- The nature and extent of intra-group transactions (e.g., transactions that involve multiple entities and business units within the group or multiple related parties), cash flows or transfer pricing agreements may give rise to additional complexities. In some cases, such matters may also give rise to fraud risk factors.
- When the group audit is subject to tight reporting deadlines imposed by group management, this may put pressure on engagement team members when completing the work assigned. In these circumstances, the engagement team may need to take additional time to appropriately question management's assertions, make appropriate judgements, or appropriately review the audit work performed.

A18. The exercise of professional scepticism by the group auditor includes remaining alert for inconsistent information from component auditors, component management and group management about matters that may be significant to the group financial statements.

Definitions*Aggregation Risk* (Ref: Para. 14(a))

A19. Aggregation risk exists in all audits of financial statements, but is particularly important to understand and address in a group audit because there is a greater likelihood that audit procedures will be performed on classes of transactions, account balances or disclosures that are disaggregated across components. Generally, aggregation risk increases as the number of components increases at which audit procedures are performed separately, whether by component auditors or other members of the engagement team.

Component (Ref: Para. 14(b))

A20. The group auditor uses professional judgement in determining components at which audit work will be performed. Paragraph A7 explains that the financial information of certain entities or business units may be considered together for purposes of planning and performing audit procedures. However, the group auditor's responsibility for the identification and assessment of the risks of material misstatement of the group financial statements encompasses all of the entities and business units whose financial information is included in the group financial statements.

Component Auditor (Ref: Para. 14(c))

A21. References in this ISA (NZ) to the engagement team include the group auditor and component auditors. Component auditors may be from a network firm, a firm that is not a network firm, or the group auditor's firm (e.g., another office within the group auditor's firm).

A22. In some circumstances, the group auditor may perform centralised testing on classes of transactions, account balances or disclosures, or may perform audit procedures related to a component. In these circumstances, the group auditor is not considered a component auditor.

ISA (NZ) 600 (Revised)

A23. Paragraph 24 requires the group auditor to request the component auditor to confirm that the component auditor will cooperate with the group auditor, including whether the component auditor will perform the work requested by the group auditor. Paragraph A58 provides guidance for circumstances in which the component auditor is unable to provide such a confirmation.

Component Management (Ref: Para. 14(d))

A24. Component management refers to management responsible for the financial information or other activity (e.g., processing of transactions at a shared service centre) at an entity or business unit that is part of the group. When the group auditor considers the financial information of certain entities or business units together as a component or determines that a shared service centre is a component (see paragraphs A7–A8), component management refers to the management that is responsible for the financial information or transaction processing that is subject to the audit procedures being performed in relation to that component. In some circumstances, there may not be separate component management and group management may be directly responsible for the financial information or other activities of the component.

Group Engagement Partner (Ref: Para. 14(j))

A25. When joint auditors conduct a group audit, the joint engagement partners and their engagement teams collectively constitute the “group engagement partner” and “engagement team” for the purposes of the ISAs (NZ). This ISA (NZ) does not, however, deal with the relationship between joint auditors or the work that one joint auditor performs in relation to the work of the other joint auditor for purposes of the group audit.

Group Financial Statements (Ref: Para. 2, 14(k))

A26. The requirements for the preparation and presentation of the group financial statements may be specified in the applicable financial reporting framework, which may therefore affect the determination of the financial information of entities or business units to be included in the group financial statements. For example, some frameworks require the preparation of consolidated financial statements when an entity (a parent entity) controls one or more other entities (e.g., subsidiaries) through majority ownership interest or other means. In some cases, the applicable financial reporting framework includes separate requirements for, or may otherwise permit, the presentation of combined financial statements. Examples of circumstances in which the presentation of combined financial statements may be permitted include entities that have no parent but are under common control or entities under common management.

A27. The term “consolidation process” as used in this ISA (NZ) is not intended to have the same meaning as “consolidation” or “consolidated financial statements” as defined or described in financial reporting frameworks. Rather, the term “consolidation process” refers more broadly to the process used to prepare group financial statements.

A28. The detailed aspects of the consolidation process vary from one group to another, depending on the group’s structure and information system, including the financial reporting process. However, a consolidation process involves considerations such as the elimination of intra-

ISA (NZ) 600 (Revised)

group transactions and balances and, when applicable, implications of different reporting periods for entities or business units included in the group financial statements.

Leadership Responsibilities for Managing and Achieving Quality on a Group Audit (Ref: Para. 11, 16)

- A29. It may not be possible or practical for the group engagement partner to solely deal with all requirements in ISA (NZ) 220 (Revised), particularly when the engagement team includes a large number of component auditors located in multiple locations. In managing quality at the engagement level, ISA (NZ) 220 (Revised)⁴⁵ permits the engagement partner to assign the design or performance of procedures, tasks or actions to other members of the engagement team to assist the engagement partner. Accordingly, the group engagement partner may assign procedures, tasks or actions to other members of the engagement team and these members may assign procedures, tasks or actions further. In such circumstances, ISA (NZ) 220 (Revised) requires that the engagement partner shall continue to take overall responsibility for managing and achieving quality on the audit engagement.
- A30. Policies or procedures established by the firm, or that are common network requirements or network services,⁴⁶ may support the group engagement partner by facilitating communication between the group auditor and component auditors and supporting the group auditor's direction and supervision of those component auditors and the review of their work.
- A31. ISA (NZ) 220 (Revised)⁴⁷ explains that a culture that demonstrates a commitment to quality is shaped and reinforced by the engagement team members as they demonstrate expected behaviours when performing the engagement. In addressing the requirement in paragraph 16(a), the group engagement partner may communicate directly to other members of the engagement team (including component auditors) and reinforce this communication through personal conduct and actions (e.g., leading by example).

Acceptance and Continuance

Determining Whether Sufficient and Appropriate Audit Evidence Can Reasonably Be Expected to Be Obtained (Ref: Para. 17–18)

- A32. In determining whether sufficient appropriate audit evidence can reasonably be expected to be obtained, the group engagement partner may obtain an understanding of matters such as:
- The group structure, including both the legal and organisational structure.
 - Activities that are significant to the group, including the industry and regulatory, economic and political environments in which those activities take place.
 - The use of service organisations.
 - The use of shared service centres.
 - The consolidation process.

⁴⁵ ISA (NZ) 220 (Revised), paragraph 15

⁴⁶ PES 3, paragraphs 48–52

⁴⁷ ISA (NZ) 220 (Revised), paragraph A298

ISA (NZ) 600 (Revised)

- Whether the group auditor:
 - Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management and component information, including of those components that are accounted for by the equity method; and
 - Will be able to perform necessary work on the financial information of the components when applicable.
- Whether sufficient and appropriate resources are assigned or will be made available.

A33. In the case of an initial group audit engagement, the group auditor's understanding of the matters in paragraph A32 may be obtained from:

- Information provided by group management;
- Communication with group management;
- Communication with those charged with governance of the group; and
- When applicable, communication with component management or the predecessor auditor.

A34. For a recurring engagement, the ability to obtain sufficient appropriate audit evidence may be affected by significant changes in, for example:

- The group structure (e.g., acquisitions, disposals, joint ventures, reorganisations, or changes in how the group financial reporting system is organised).
- Components' activities that are significant to the group.
- The composition of those charged with governance of the group, group management, or key management of components for which audit procedures are expected to be performed.
- The group auditor's understanding of the integrity and competence of group or component management.
- The applicable financial reporting framework.

A35. There may be additional complexities with obtaining sufficient appropriate audit evidence in a group audit when components are located in jurisdictions other than the group auditor's jurisdiction because of cultural and language differences, and different laws or regulations. For example, law or regulation may restrict the component auditor from providing documentation outside of its jurisdiction, or war, civil unrest or outbreaks of disease may restrict the group auditor's access to relevant component auditor audit documentation. Paragraph A180 includes possible ways to address these situations.

A36. Restrictions may be imposed after the group engagement partner's acceptance of the group audit engagement that may affect the engagement team's ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:

- The group auditor's access to component information, management or those charged with governance of components, or the component auditors (including relevant audit

ISA (NZ) 600 (Revised)

documentation sought by the group auditor) (see paragraphs 20 and 21); or

- The work to be performed on the financial information of components.

Paragraphs A45–A46 explain the possible effect of such restrictions on the auditor’s report on the group financial statements.

Agreeing the Terms of Audit Engagements (Ref: Para. 19)

A37. ISA (NZ) 210⁴⁸ requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate. The terms of engagement identify the applicable financial reporting framework. Additional matters that may be included in the terms of a group audit engagement include:

- Communications between the group auditor and component auditors should be unrestricted to the extent possible under laws or regulations;
- Important communications between component auditors and those charged with governance of the component or component management, including communications on significant deficiencies in internal control, should be communicated to the group auditor;
- Communications between regulatory authorities and entities or business units related to financial reporting matters that may be relevant to the group audit should be communicated to the group auditor; and
- The group auditor should be permitted to perform work, or request a component auditor to perform work, at the component.

Restrictions on Access to Information or People (Ref: Para. 20–21)

A38. Restrictions on access to information or people do not eliminate the requirement for the group auditor to obtain sufficient appropriate audit evidence.

A39. Access to information or people can be restricted for many reasons, such as restrictions imposed by component management, laws or regulations or other conditions, for example, war, civil unrest or outbreaks of disease. Paragraph A180 describes how the group auditor may be able to overcome restrictions on access to component auditor audit documentation.

A40. In some circumstances, the group auditor may be able to overcome restrictions on access to information or people, for example:

- If access to component management or those charged with governance of the component is restricted, the group auditor may request group management or those charged with governance of the group to assist with removing the restriction or otherwise request information directly from group management or those charged with governance of the group.
- If the group has a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may determine whether provisions exist (e.g., in the terms of joint venture agreements, or the terms of other investment agreements) regarding

⁴⁸ ISA (NZ) 210, paragraph 9 and 10(d)

ISA (NZ) 600 (Revised)

access by the group to the financial information of the entity and request group management to exercise such rights.

- If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group has representatives who are on the executive board or are members of those charged with governance of the non-controlled entity, the group auditor may enquire whether they can provide financial and other information available to them in these roles.

A41. If the group has a non-controlling interest in an entity that is accounted for by the equity method and the group auditor's access to information or people at the entity is restricted, the group auditor may be able to obtain information to be used as audit evidence regarding the entity's financial information, for example:

- Financial information that is available from group management, as group management also needs to obtain the non-controlled entity's financial information in order to prepare the group financial statements.
- Publicly available information, such as audited financial statements, public disclosure documents, or quoted prices of equity instruments in the non-controlled entity.

It is a matter of professional judgement, particularly in view of the assessed risks of material misstatement of the group financial statements and considering other sources of information that may corroborate or otherwise contribute to audit evidence obtained, whether the auditor can obtain sufficient appropriate audit evidence.⁴⁹

A42. If the group has a non-controlling interest in an entity that is accounted for by the equity method and access to information or people at the entity is restricted, the group auditor may consider whether such restrictions are inconsistent with group management's assertions regarding the appropriateness of the use of the equity method of accounting.

A43. When the group auditor is unable to obtain sufficient appropriate audit evidence due to restrictions on access to information or people, the group auditor may:

- Communicate the restrictions to the group auditor's firm to assist the group auditor in determining an appropriate course of action. For example, the group auditor's firm may communicate with group management about the restrictions and encourage group management to communicate with regulators. This may be useful when restrictions affect multiple audits in the jurisdiction or by the same firm, for example, because of war, civil unrest or outbreaks of disease in a major economy.
- Be required by law or regulation to communicate with regulators, listing authorities, or others, about the restrictions.

A44. Restrictions on access may have other implications for the group audit. For example, if restrictions are imposed by group management, the group auditor may need to reconsider the reliability of group management's responses to the group auditor's inquiries and whether the restrictions call into question group management's integrity.

Effect of Restrictions on Access to Information or People on the Auditor's Report on Group

⁴⁹ ISA (NZ) 330, paragraph 7(b)

ISA (NZ) 600 (Revised)*Financial Statements (Ref: Para. 20–21)*

A45. ISA (NZ) 705 (Revised)⁵⁰ contains requirements and guidance about how to address situations when the group auditor is unable to obtain sufficient appropriate audit evidence. Appendix 1 contains an example of an auditor's report containing a qualified group audit opinion based on the group auditor's inability to obtain sufficient appropriate audit evidence in relation to a component that is accounted for by the equity method.

Law or Regulation Prohibit the Group Engagement Partner from Declining or Withdrawing from an Engagement (Ref: Para. 20–21)

A46. Law or regulation may prohibit the group engagement partner from declining or withdrawing from an engagement. For example, in some jurisdictions the auditor is appointed for a specified period of time and is prohibited from withdrawing before the end of that period. Also, in the public sector, the option of declining or withdrawing from an engagement may not be available to the auditor due to the nature of the mandate or public interest considerations. In these circumstances, the requirements in this ISA (NZ) still apply to the group audit, and the effect of the group auditor's inability to obtain sufficient appropriate audit evidence is addressed in ISA (NZ) 705 (Revised).

Overall Group Audit Strategy and Group Audit Plan*The Continual and Iterative Nature of Planning and Performing a Group Audit (Ref: Para. 22)*

A47. As explained in ISA (NZ) 300,⁵¹ planning is not a discrete phase of an audit, but rather a continual and iterative process that often begins shortly after (or in connection with) the completion of the previous audit and continues until the completion of the current audit engagement. For example, due to unexpected events, changes in conditions, or audit evidence obtained from risk assessment or further audit procedures, the group auditor may need to modify the overall group audit strategy and group audit plan, and the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. The group auditor may also modify the determination of the components at which to perform audit work as well as the nature, timing and extent of the component auditors' involvement. ISA (NZ) 300⁵² requires the auditor to update and change the overall audit strategy and audit plan as necessary during the course of the audit.

Establishing the Overall Group Audit Strategy and Group Audit Plan (Ref: Para. 22)

A48. In an initial group audit engagement, the group auditor may have a preliminary understanding of the group and its environment, the applicable financial reporting framework and the entity's system of internal control based on information obtained from group management, those charged with governance of the group and, when applicable, communication with component management or the predecessor auditor. In a recurring group audit engagement, the group auditor's preliminary understanding may be obtained through prior period audits. This preliminary understanding may assist the group auditor in

⁵⁰ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁵¹ ISA (NZ) 300, paragraph A2

⁵² ISA (NZ) 300, paragraph 10

ISA (NZ) 600 (Revised)

developing initial expectations about the classes of transactions, account balances and disclosures that may be significant.

A49. The group auditor may also use information obtained during the engagement acceptance and continuance process in establishing the overall group audit strategy and group audit plan, for example, in relation to the resources needed to perform the group audit.

A50. The process of establishing the overall group audit strategy and group audit plan and initial expectations about the classes of transactions, account balances and disclosures that may be significant at the group financial statement level may assist the group auditor in developing a preliminary determination of matters such as:

- Whether to perform audit work centrally, at components or a combination thereof; and
- The nature, timing and extent of audit work to be performed with respect to the financial information of components (e.g., design and perform risk assessment procedures, further audit procedures, or a combination thereof).

Components at Which to Perform Audit Work (Ref: Para. 22(a))

A51. The determination of components at which to perform audit work is a matter of professional judgement. Matters that may influence the group auditor's determination include, for example:

- The nature of events or conditions that may give rise to risks of material misstatement at the assertion level of the group financial statements that are associated with a component, for example:
 - Newly formed or acquired entities or business units.
 - Entities or business units in which significant changes have taken place.
 - Significant transactions with related parties.
 - Significant transactions outside the normal course of business.
 - Abnormal fluctuations identified by analytical procedures performed at the group level, in accordance with ISA (NZ) 315 (Revised 2019).⁵³
- The disaggregation of significant classes of transactions, account balances and disclosures in the group financial statements across components, considering the size and nature of assets, liabilities and transactions at the location or business unit relative to the group financial statements.
- Whether sufficient appropriate audit evidence is expected to be obtained for all significant classes of transactions, account balances and disclosures in the group financial statements from audit work planned on the financial information of identified components.
- The nature and extent of misstatements or control deficiencies identified at a component in prior period audits.

⁵³ ISA (NZ) 315 (Revised 2019), paragraph 14(b)

ISA (NZ) 600 (Revised)

- The nature and extent of the commonality of controls across the group and whether, and if so, how, the group centralises activities relevant to financial reporting.

Resources (Ref: Para. 22(b))

A52. Matters that influence the group auditor's determination of the resources needed to perform the group audit and the nature, timing and extent to which component auditors are to be involved are a matter of professional judgement and may include, for example:

- The understanding of the group, the components within the group at which audit work is to be performed and whether to perform work centrally, at components or a combination thereof.
- The knowledge and experience of the engagement team. For example, component auditors may have greater experience and a more in-depth knowledge than the group auditor of the local industries in which components operate, local laws or regulations, business practices, language and culture. In addition, the involvement of auditor's experts may be needed on complex matters.
- The initial expectations about the potential risks of material misstatement.
- The amount or location of resources to allocate to specific audit areas. For example, the extent to which components are dispersed across multiple locations may impact the need to involve component auditors in specific locations.
- Access arrangements. For example, when the group auditor's access to a component in a particular jurisdiction is restricted, component auditors may need to be involved.
- The nature of the components' activities, including their complexity or specialisation of operations.
- The group's system of internal control, including the information system in place, and its degree of centralisation. For example, the involvement of component auditors may be more likely when the system of internal control is decentralised.
- Previous experience with the component auditor.

A53. Component auditors may be involved in different phases of an audit, for example, component auditors may design or perform:

- Risk assessment procedures; and
- Procedures to respond to the assessed risks of material misstatement.

A54. The nature, timing and extent to which component auditors are to be involved depends on the facts and circumstances of the group audit engagement. Often component auditors will be involved in all phases of the audit, but the group auditor may decide to involve component auditors only in a certain phase. When the group auditor does not intend to involve component auditors in risk assessment procedures, the group auditor may still discuss with component auditors whether there are any significant changes in the business or the system of internal control of the component that could have an effect on the risks of material misstatement of the group financial statements.

ISA (NZ) 600 (Revised)

- A55. ISA (NZ) 300⁵⁴ requires the engagement partner and other key members of the engagement team to be involved in planning the audit. When component auditors are involved, one or more individuals from a component auditor may be key members of the engagement team and therefore involved in planning the group audit. The involvement of component auditors in planning the audit draws on their experience and insight, thereby enhancing the effectiveness and efficiency of the planning process. The group engagement partner uses professional judgement in determining which component auditors to involve in planning the audit. This may be affected by the nature, timing and extent to which the component auditors are expected to be involved in designing and performing risk assessment or further audit procedures.
- A56. As described in PES 3,⁵⁵ there may be circumstances when the fee quoted for an engagement is not sufficient given the nature and circumstances of the engagement, and it may diminish the firm's ability to perform the engagement in accordance with professional standards and applicable legal or regulatory requirements. The level of fees, including their allocation to component auditors, and the extent to which they relate to the resources required, may be a special consideration for group audit engagements. For example, in a group audit, the firm's financial and operational priorities may place constraints on the determination of the components at which audit work will be performed, as well as the resources needed, including the involvement of component auditors. In such circumstances, these constraints do not override the group engagement partner's responsibility for achieving quality at the engagement level or the requirements for the group auditor to obtain sufficient appropriate audit evidence on which to base the group audit opinion.

Considerations When Component Auditors Are Involved

Sufficient and Appropriate Involvement in the Work of the Component Auditor (Ref: Para. 23– 24)

- A57. In evaluating whether the group auditor will be able to be sufficiently and appropriately involved in the work of the component auditor, the group auditor may obtain an understanding of whether the component auditor is subject to any restrictions that limit communication with the group auditor, including with regard to sharing audit documentation with the group auditor. The group auditor may also obtain an understanding about whether audit evidence related to components located in a different jurisdiction may be in a different language and may need to be translated for use by the group auditor.
- A58. If the component auditor is unable to cooperate with the group auditor, the group auditor may:
- Request the component auditor to provide its rationale.
 - Be able to take appropriate action to address the matter, including adjusting the nature of the work requested to be performed. Alternatively, in accordance with paragraph 27, the group auditor may need to obtain sufficient appropriate audit evidence relating to the work to be performed at the component without involving the component auditor.

⁵⁴ ISA (NZ) 300, paragraph 5

⁵⁵ PES 3, paragraph A74

ISA (NZ) 600 (Revised)**Relevant Ethical Requirements, Including Those Related to Independence (Ref: Para. 25)**

- A59. When performing work at a component for a group audit engagement, the component auditor is subject to ethical requirements, including those related to independence, that are relevant to the group audit engagement. Such requirements may be different from or in addition to those applying to the component auditor when performing an audit on the financial statements of an entity or business unit that is part of the group for statutory, regulatory or other reasons in the component auditor's jurisdiction.
- A60. In making the component auditors aware of relevant ethical requirements, the group auditor may consider whether additional information or training for component auditors is necessary regarding the provisions of the ethical requirements that are relevant to the group audit engagement.

Engagement Resources (Ref: Para. 26)

- A61. ISA (NZ) 220 (Revised)⁵⁶ requires the engagement partner to determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner. When sufficient or appropriate resources are not made available in relation to work to be performed by a component auditor, the group engagement partner may discuss the matter with the component auditor, group management or the group auditor's firm and may subsequently request the component auditor or the group auditor's firm to make sufficient and appropriate resources available.

Competence and capabilities of the component auditors

- A62. ISA (NZ) 220 (Revised)⁵⁷ provides guidance regarding matters the engagement partner may take into consideration when determining the competence and capabilities of the engagement team. This determination is particularly important in a group audit when the engagement team includes component auditors. ISA (NZ) 220 (Revised)⁵⁸ indicates that the firm's policies or procedures may require the firm or the engagement partner to take different actions from those applicable to personnel when obtaining an understanding of whether a component auditor from another firm has the appropriate competence and capabilities to perform the audit engagement.
- A63. Determining whether component auditors have the appropriate competence and capabilities is a matter of professional judgement and is influenced by the nature and circumstances of the group audit engagement. This determination influences the nature, timing and extent of the group engagement partner's direction and supervision of the component auditor and the review of their work.
- A64. In determining whether component auditors have the appropriate competence and capabilities to perform the assigned audit procedures at the component, the group engagement partner may consider matters such as:
- Previous experience with or knowledge of the component auditor.

⁵⁶ ISA (NZ) 220 (Revised), paragraph 25

⁵⁷ ISA (NZ) 220 (Revised), paragraph A724

⁵⁸ ISA (NZ) 220 (Revised), paragraph A24

ISA (NZ) 600 (Revised)

- The component auditor's specialised skills (e.g., industry-specific knowledge).
- The degree to which the group auditor and component auditor are subject to a common system of quality management, for example, whether the group auditor and a component auditor:
 - Use common resources to perform the work (e.g., audit methodologies or IT applications);
 - Share common policies or procedures affecting engagement performance (e.g., direction, supervision and review of work or consultation);
 - Are subject to common monitoring activities; or
 - Have other commonalities, including common leadership or a common cultural environment.
- The consistency or similarity of:
 - Laws or regulations or legal system;
 - Language and culture;
 - Education and training;
 - Professional oversight, discipline, and external quality assurance; or
 - Professional organisations and standards.
- Information obtained about the component auditor through interactions with component management, those charged with governance, and other key personnel, such as internal auditors.

A65. The procedures to determine the component auditor's competency and capability may include, for example:

- An evaluation of the information communicated by the group auditor's firm to the group auditor, including:
 - The firm's ongoing communication related to monitoring and remediation, in circumstances when the group auditor and component auditor are from the same firm.⁵⁹
 - Information from the network about the results of the monitoring activities undertaken by the network across the network firms.⁶⁰
 - Information obtained from professional body(ies) to which the component auditor belongs, the authorities by which the component auditor is licensed, or other third parties.
- Discussing the assessed risks of material misstatement with the component auditor.
- Requesting the component auditor to confirm their understanding of the matters

⁵⁹ PES 3, paragraph 47

⁶⁰ PES 3, paragraph 51(b)

ISA (NZ) 600 (Revised)

referred to in paragraph 25 in writing.

- Discussing the component auditor's competence and capabilities with colleagues in the group engagement partner's firm that have worked directly with the component auditor.
- Obtaining published external inspection reports.

A66. The group engagement partner's firm and the component auditor may be members of the same network and may be subject to common network requirements or use common network services.⁶¹ When determining whether component auditors have the appropriate competence and capabilities to perform work in support of the group audit engagement, the group engagement partner may be able to depend on such network requirements, for example, those addressing professional training or recruitment, or that require the use of audit methodologies and related implementation tools. In accordance with PES 3,⁶² the firm is responsible for designing, implementing and operating its system of quality management, and the firm may need to adapt or supplement network requirements or network services to be appropriate for use in its system of quality management.

Using the work of an auditor's expert

A67. ISA (NZ) 220 (Revised)⁶³ requires the engagement partner to determine that members of the engagement team, and any auditor's external experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement. If an auditor's expert is used by a component auditor, the group engagement partner may need to obtain information from the component auditor. For example, the group auditor may discuss with the component auditor the component auditor's evaluation of the competence and capabilities of the auditor's expert.

Automated tools and techniques

A68. When determining whether the engagement team has the appropriate competence and capabilities, the group engagement partner may take into consideration such matters as the expertise of the component auditor in the use of automated tools and techniques. For example, as described in ISA (NZ) 220 (Revised),⁶⁴ when the group auditor requires component auditors to use specific automated tools and techniques when performing audit procedures, the group auditor may communicate with component auditors that the use of such automated tools and techniques need to comply with the group auditor's instructions.

Application of the Group Auditor's Understanding of a Component Auditor (Ref: Para. 27)

A69. ISA (NZ) 220 (Revised)⁶⁵ requires the engagement partner to take responsibility for other members of the engagement team having been made aware of relevant ethical requirements

⁶¹ PES 3, paragraphs A19, A175

⁶² PES 3, paragraph 48–49

⁶³ ISA (NZ) 220 (Revised), paragraph 26

⁶⁴ ISA (NZ) 220 (Revised), paragraph A665

⁶⁵ ISA (NZ) 220 (Revised), paragraph 17

ISA (NZ) 600 (Revised)

that are applicable given the nature and circumstances of the audit engagement, and the firm's related policies or procedures. This includes the firm's policies or procedures that address circumstances that may cause a breach of relevant ethical requirements, including those related to independence, and the responsibilities of members of the engagement team when they become aware of breaches. The firm's policies or procedures also may address breaches of independence requirements by component auditors, and actions the group auditor may take in those circumstances in accordance with the relevant ethical requirements. In addition, relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances when breaches of independence requirements have been identified.⁶⁶

- A70. If there has been a breach by a component auditor of the relevant ethical requirements that apply to the group audit engagement, including those related to independence, and the breach has not been satisfactorily addressed in accordance with provisions of the relevant ethical requirements, the group auditor cannot use the work of that component auditor.
- A71. Serious concerns are those concerns that in the group auditor's professional judgement cannot be overcome. The group engagement partner may be able to overcome less than serious concerns about the component auditor's professional competency (e.g., lack of industry-specific knowledge), or the fact that the component auditor does not operate in an environment that actively oversees auditors, by the group auditor being more involved in the work of the component auditor or by directly performing further audit procedures on the financial information of the component.

Engagement Performance (Ref: Para. 28)

- A72. ISA (NZ) 220 (Revised)⁶⁷ requires the engagement partner to determine that the nature, timing and extent of direction, supervision and review is planned and performed in accordance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements, and is responsive to the nature and circumstances of the audit engagement and the resources assigned or made available to the engagement team. For a group audit, the approach to direction, supervision and review will generally include a combination of addressing the group auditor's firm policies or procedures and group audit engagement-specific responses.
- A73. For a group audit, particularly when the engagement team includes a large number of component auditors that may be located in multiple locations, the group engagement partner may assign the design or performance of procedures, tasks or actions to other members of the engagement team to assist the group engagement partner in fulfilling the responsibility for the nature, timing and extent of the direction and supervision of component auditors and the review of their work (see also paragraph 11).
- A74. If component auditors are from a firm other than the group auditor's firm, the firm's policies or procedures may be different, or different actions may need to be taken, respectively, in relation to the nature, timing and extent of direction and supervision of those members of the engagement team, and the review of their work. In particular, firm policies or procedures

⁶⁶ ISA (NZ) 260 (Revised), paragraph A31

⁶⁷ ISA (NZ) 220 (Revised), paragraph 30

ISA (NZ) 600 (Revised)

may require the firm or the group engagement partner to take different actions from those applicable to members of the engagement team within the firm or the network (e.g., in relation to the form, content and timing of communications with component auditors, including the use of group auditor instructions to component auditors). ISA (NZ) 220 (Revised) provides examples of actions that may need to be taken in such circumstances.⁶⁸

A75. The nature, timing and extent of direction and supervision of component auditors and review of their work may be tailored based on the nature and circumstances of the engagement and, for example:

- The assessed risks of material misstatement. For example, if the group auditor has identified a component that includes a significant risk, an increase in the extent of direction and supervision of the component auditor and a more detailed review of the component auditor's audit documentation may be appropriate.
- The competence and capabilities of the component auditors performing the audit work. For example, if the group auditor has no previous experience working with a component auditor, the group auditor may communicate more detailed instructions, increase the frequency of discussions or other interactions with the component auditor, or assign more experienced individuals to oversee the component auditor as the work is performed.
- The location of engagement team members, including the extent to which engagement team members are dispersed across multiple locations, including when service delivery centres are used.
- Access to component auditor audit documentation. For example, when law or regulation precludes component auditor audit documentation from being transferred out of the component auditor's jurisdiction, the group auditor may be able to review the audit documentation at the component auditor's location or remotely through the use of technology, when not prohibited by law or regulation (see also paragraphs A179–A180).

A76. There are different ways in which the group engagement partner may take responsibility for directing and supervising component auditors and reviewing their work, for example:

- Communications with component auditors throughout the course of the group audit, including communications required by this ISA (NZ).
- Meetings or calls with component auditors to discuss identified and assessed risks, issues, findings and conclusions.
- Reviews of the component auditor's audit documentation in person or remotely when permitted by law and regulation.
- Participating in the closing or other key meetings between the component auditors and component management.

⁶⁸ ISA (NZ) 220 (Revised), paragraph A24–A25

ISA (NZ) 600 (Revised)

A77. In applying ISA (NZ) 220 (Revised),⁶⁹ the group engagement partner is required to review audit documentation at appropriate points in time during the audit engagement, including audit documentation relevant to the group audit relating to:

- Significant matters;
- Significant judgements, including those relating to difficult or contentious matters identified during the audit engagement, and the conclusions reached; and
- Other matters that, in the engagement partner's professional judgement, are relevant to the engagement partner's responsibilities.

The review of such audit documentation by the group engagement partner often takes place during the course of the group audit, including the review of relevant component auditor audit documentation (also see paragraph A148).

Communications with Component Auditors (Ref: Para. 29)

A78. Clear and timely communication between the group auditor and the component auditors about their respective responsibilities, along with clear direction to the component auditors about the nature, timing and extent of the work to be performed and the matters expected to be communicated to the group auditor, helps establish the basis for effective two-way communication. Effective two-way communication between the group auditor and the component auditors also helps to set expectations for component auditors and facilitates the group auditor's direction and supervision of them and the review of their work. Such communication also provides an opportunity for the group engagement partner to reinforce the need for component auditors to exercise professional scepticism in the work performed for purposes of the group audit.

A79. Other factors that may also contribute to effective two-way communication include:

- Clarity of the instructions to the component auditor, particularly when the component auditor is from another firm and may not be familiar with the policies or procedures of the group auditor's firm.
- A mutual understanding that the component auditor may discuss the audit work requested to be performed, based on the component auditor's knowledge and understanding of the component.
- A mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form of communications. For example, matters that need timely attention may be more appropriately discussed in a meeting rather than by exchanging emails.
- A mutual understanding of the person(s) from the group auditor and component auditors who have responsibility for managing communications regarding particular matters.
- The process for the component auditor to take action and report back on matters communicated by the group auditor.

⁶⁹ ISA (NZ) 220 (Revised), paragraphs 31, A923–A934

ISA (NZ) 600 (Revised)

A80. The communications between the group auditor and component auditors depend on the facts and circumstances of the group audit engagement, including the nature and extent of involvement of the component auditors and the degree to which the group auditor and component auditors are subject to common systems of quality management or common network requirements or network services.

Form of communications

A81. The form of the communications between the group auditor and component auditors may vary based on factors such as the nature of the audit work the component auditors have been requested to perform, and the extent to which communication capabilities are integrated into the audit tools used for the group audit.

A82. The form of communications also may be affected by such factors as:

- The significance, complexity or urgency of the matter.
- Whether the matter has been or is expected to be communicated to group management and those charged with governance of the group.

A83. Communication between the group auditor and the component auditor may not necessarily be in writing. However, the group auditor's verbal communications with the component auditors may be supplemented by written communication, such as a set of instructions regarding the work to be performed, when the group auditor wants to give particular attention to, or promote a mutual understanding about, certain matters. In addition, the group auditor may meet with the component auditor to discuss significant matters or to review relevant parts of the component auditor's audit documentation.

A84. Paragraph [45-46](#) requires the group auditor to request the component auditor to communicate matters relevant to the group auditor's conclusion with regard to the group audit. As explained in paragraph A146, the form and content of the component auditor's deliverables are influenced by the nature and extent of the audit work the component auditor has been requested to perform.

A85. Regardless of the form of communication, the documentation requirements of this and other ISAs (NZ) apply.

Timing of communications

A86. The appropriate timing of communications will vary with the circumstances of the engagement. Relevant circumstances may include the nature, timing and extent of work to be performed by the component auditor and the action expected to be taken by the component auditor. For example, communications regarding planning matters may often be made early in the audit engagement and, for an initial group audit, may be made as part of agreeing the terms of the engagement.

Non-compliance with laws or regulations (Ref: Para. 25, 29)

A87. In applying ISA (NZ) 250 (Revised),⁷⁰ the group engagement partner may become aware of

⁷⁰ ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

ISA (NZ) 600 (Revised)

information about non-compliance or suspected non-compliance with laws or regulations. In such circumstances, the group engagement partner may have an obligation under relevant ethical requirements, laws or regulations, to communicate the matter to the component auditor.⁷¹ The obligation of the group engagement partner to communicate non-compliance or suspected non-compliance may extend to auditors of the financial statements of entities or business units for which an audit is required by statute, regulation or for another reason, but for which no audit work is performed for purposes of the group audit.

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control (Ref: Para. 30)

- A88. ISA (NZ) 315 (Revised 2019)⁷² contains requirements and guidance regarding the auditor's responsibility to obtain an understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control. Appendix 2 of this ISA (NZ) provides examples of matters related to internal control that may be helpful in obtaining an understanding of the system of internal control in the context of a group environment, and expands on how ISA (NZ) 315 (Revised 2019) is to be applied to an audit of group financial statements.
- A89. The understanding of the group and its environment, the applicable financial reporting framework, and the group's system of internal control may be obtained through communications with:
- Group management, component management or other appropriate individuals within the entity, including individuals within the internal audit function (if the function exists) and individuals who have knowledge of the group's system of internal control, accounting policies and practices, and the consolidation process;
 - Component auditors; or
 - Auditors that perform an audit for statutory, regulatory or other reasons of the financial statements of an entity or business unit that is part of the group.
- A90. Obtaining an understanding of the group, identifying risks of material misstatement and assessing inherent risk and control risk may be performed in different ways depending on preferred audit techniques or methodologies and may be expressed in different ways. Accordingly, when component auditors are involved in the design and performance of risk assessment procedures, the group auditor may need to communicate its preferred approach with component auditors or provide instructions.

Engagement Team Discussion (Ref: Para. 30)

- A91. In applying ISA (NZ) 315 (Revised 2019),⁷³ the group engagement partner and other key engagement team members are required to discuss the application of the applicable financial reporting framework and the susceptibility of the group's financial statements to material

⁷¹ See, for example, Paragraphs R360.17 and R360.18 of PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) ~~(PES-1)~~

⁷² ISA (NZ) 315 (Revised 2019), paragraphs 19–27, A50–A183

⁷³ ISA (NZ) 315 (Revised 2019), paragraph 17

ISA (NZ) 600 (Revised)

misstatement. The group engagement partner's determination of which members of the engagement team to include in the discussion, and the topics to be discussed, is affected by matters such as initial expectations about the risks of material misstatement and the preliminary expectation of whether to involve component auditors.

A92. The discussion provides an opportunity to:

- Share knowledge of the components and their environments, including which components' activities are centralised.
- Exchange information about the business risks of the components or the group, and how inherent risk factors may affect susceptibility to misstatement of classes of transactions, account balances and disclosures.
- Exchange ideas about how and where the group financial statements may be susceptible to material misstatement due to fraud or error. ISA (NZ) 240⁷⁴ requires the engagement team discussion to place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur.
- Identify policies followed by group or component management that may be biased or designed to manage earnings that could lead to fraudulent financial reporting.
- Consider known external and internal factors affecting the group that may create an incentive or pressure for group management, component management, or others to commit fraud, provide the opportunity for fraud to be perpetrated, or indicate a culture or environment that enables group management, component management, or others to rationalise committing fraud.
- Consider the risk that group or component management may override controls.
- Discuss fraud [or suspected fraud](#) that has been identified, or information that indicates existence of a fraud.
- Identify risks of material misstatement relevant to components where there may be impediments to the exercise of professional scepticism.
- Consider whether uniform accounting policies are used to prepare the financial information of the components for the group financial statements and, if not, how differences in accounting policies are identified and adjusted (when required by the applicable financial reporting framework).
- Share information about risks of material misstatement of the financial information of a component that may apply more broadly to some, or all, of the other components.
- Share information that may indicate non-compliance with national laws or regulations, for example, payments of bribes and improper transfer pricing practices.
- Discuss events or conditions identified by group management, component management or the engagement team, that may cast significant doubt on the group's ability to continue as a going concern.

⁷⁴ ISA (NZ) 240, paragraph [4629](#)

ISA (NZ) 600 (Revised)

- Discuss related party relationships or transactions identified by group management or component management, and any other related parties of which the engagement team is aware.

The Group and Its Environment (Ref: Para. 30 (a))

A93. An understanding of the group's organisational structure and its business model may enable the group auditor to understand such matters as:

- The complexity of the group's structure. A group may be more complex than a single entity because a group may have several subsidiaries, divisions or other business units, including in multiple locations. Also, a group's legal structure may be different from the operating structure, for example, for tax purposes. Complex structures often introduce factors that may give rise to increased susceptibility to material misstatements, such as whether goodwill, joint ventures or special-purpose entities are accounted for appropriately and whether adequate disclosures have been made.
- The geographic locations of the group's operations. Having a group that is located in multiple geographical locations may give rise to increased susceptibility to material misstatements. For example, different geographical locations may involve different languages, cultures and business practices.
- The structure and complexity of the group's IT environment. A complex IT environment often introduces factors that may give rise to increased susceptibility to material misstatements. For example, a group may have a complex IT environment because of multiple IT systems that are not integrated due to recent acquisitions or mergers. Therefore, it may be particularly important to obtain an understanding of the complexity of the security over the IT environment, including vulnerability of the IT applications, databases, and other aspects of the IT environment. A group may also use one or more external service providers for aspects of its IT environment.
- Relevant regulatory factors, including the regulatory environment. Different laws or regulations may introduce factors that may give rise to increased susceptibility to material misstatements. A group may have operations that are subject to a high degree of complex laws or regulations in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of laws or regulations.
- The ownership, and relationships between owners and other people or entities, including related parties. Understanding the ownership and relationships can be more complex in a group that operates across multiple jurisdictions and when there are changes in ownership through formation, acquisition, disposal or joint venture. These factors may give rise to increased susceptibility to material misstatements.

A94. Obtaining an understanding of the degree to which the group's operations or activities are similar may help to identify similar risks of material misstatement across components and design an appropriate response.

A95. The financial results of entities or business units are ordinarily measured and reviewed by group management. Enquiries of group management may reveal that group management

ISA (NZ) 600 (Revised)

relies on certain key indicators to evaluate the financial performance of the group's entities and business units and take action. The understanding of such performance measures may help to identify:

- Areas where there is increased susceptibility to material misstatements (e.g., due to pressures on component management to meet certain performance measures).
- Controls over the group's financial reporting process.

The Group's System of Internal Control

The Nature and Extent of Commonality of Controls (Ref: Para. 30(c)(i))

A96. Group management may design controls that are intended to operate in a common manner across multiple entities or business units (i.e., common controls). For example, group management may design common controls for inventory management, which operate using the same IT system and that are implemented across all entities or business units in the group. Common controls may exist in each component of the group's system of internal control, and they may be implemented at different levels within the group (e.g., at the level of the consolidated group as a whole, or for other levels of aggregation within the group). Common controls may be direct controls or indirect controls. Direct controls are controls that are precise enough to address risks of material misstatement at the assertion level. Indirect controls are controls that support direct controls.⁷⁵

A97. Understanding the components of the group's system of internal control includes understanding the commonality of the controls within those components across the group. In understanding the commonality of a control across the group, considerations that may be relevant include whether:

- The control is designed centrally and is required to be implemented as designed (i.e., without modification) at some or all components;
- The control is implemented and, if applicable, monitored by individuals with similar responsibilities and capabilities at all the components where the control is implemented;
- If a control uses information from IT applications, the IT applications and other aspects of the IT environment that generate the information are the same across the components or locations; or
- If the control is automated, it is configured in the same way in each IT application across the components.

A98. Judgement may often be needed to determine whether a control is a common control. For example, group management may require that all entities and business units perform a monthly evaluation of the aging of customers' accounts that is generated from a specific IT application. When the aging reports are generated from different IT applications or the implementation of the IT application differs across entities or business units, there may be a need to consider whether the control can be determined to be common. This is because of differences in the design of the control that may exist due to the existence of different IT

⁷⁵ ISA (NZ) 315 (Revised 2019), paragraph A5

ISA (NZ) 600 (Revised)

applications (e.g., whether the IT application is configured in the same manner across components, and whether there are effective general IT controls across different IT applications).

- A99. Consideration of the level at which controls are performed within the group (e.g., at the level of the consolidated group as a whole or for other levels of aggregation within the group) and the degree of centralisation and commonality may be important to the understanding of how information is processed and controlled. In some circumstances, controls may be performed centrally (e.g., performed only at a single entity or business unit), but may have a pervasive effect on other entities or business units (e.g., a shared service centre that processes transactions on behalf of other entities or business units within the group). The processing of transactions and related controls at a shared service centre may operate in the same way for those transactions being processed by the shared service centre regardless of the entity or business unit (e.g., the processes, risks and controls may be the same regardless of the source of the transaction). In such cases, it may be appropriate to identify the controls and evaluate the design and determine the implementation of the controls, and, if applicable, test operating effectiveness, as a single population.

Centralised Activities (Ref: Para. 30(c)(i)–(ii))

- A100. Group management may centralise some of its activities, for example financial reporting or accounting functions may be performed for a particular group of common transactions or other financial information in a consistent and centralised manner for multiple entities or business units (e.g., when the initiation, authorisation, recording, processing, or reporting of revenue transactions is performed at a shared service centre).
- A101. Obtaining an understanding of how centralised activities fit into the overall group structure, and the nature of the activities undertaken, may help to identify and assess risks of material misstatement and appropriately respond to such risks. For example, controls at a shared service centre may operate independently from other controls, or they may be dependent upon controls at an entity or business unit from which financial information is derived (e.g., sales transactions may be initiated and authorised at an entity or business unit, but the processing may occur at the shared service centre).
- A102. The group auditor may involve component auditors in testing the operating effectiveness of common controls or controls related to centralised activities. In such circumstances, effective collaboration between the group auditor and component auditors is important as the audit evidence obtained through testing the operating effectiveness of common controls or controls related to centralised activities supports the determination of the nature, timing and extent of substantive procedures to be performed across the group.

Communications About Significant Matters that Support the Preparation of the Group Financial Statements (Ref: Para. 30(c)(iv))

- A103. Group entities or business units may use a financial reporting framework for statutory, regulatory or other reasons that is different from the financial reporting framework used for the group's financial statements. In such circumstances, an understanding of group management's financial reporting processes to align accounting policies and, when relevant, financial reporting period-ends that differ from that of the group, enables the group auditor

ISA (NZ) 600 (Revised)

to understand how adjustments, reconciliations and reclassifications are made, and whether they are made centrally by group management or by the entity or business unit.

Instructions by group management to entities or business units

A104. In applying ISA (NZ) 315 (Revised 2019),⁷⁶ the group auditor is required to understand how group management communicates significant matters that support the preparation of the group financial statements. To achieve uniformity and comparability of financial information, group management may issue instructions (e.g., communicate financial reporting policies) to the entities or business units that include details about financial reporting processes or may have policies that are common across the group. Obtaining an understanding of group management's instructions may affect the identification and assessment of the risks of material misstatement of the group financial statements. For example, inadequate instructions may increase the likelihood of misstatements due to the risk that transactions are incorrectly recorded or processed, or that accounting policies are incorrectly applied.

A105. The group auditor's understanding of the instructions or policies may include the following:

- The clarity and practicality of the instructions for completing the reporting package.
- Whether the instructions:
 - Adequately describe the characteristics of the applicable financial reporting framework and the accounting policies to be applied;
 - Address information necessary to prepare disclosures that are sufficient to comply with the requirements of the applicable financial reporting framework, for example, disclosure of related party relationships and transactions, and segment information;
 - Address information necessary for making consolidation adjustments, for example, intra-group transactions and unrealised profits, and intra-group account balances; and
 - Include a reporting timetable.

Considerations When Component Auditors Are Involved (Ref: Para. 31–32)

A106. During the course of the group audit, the group auditor may communicate the matters in paragraph 31 to other component auditors, if these matters are relevant to the work of those component auditors. Paragraph A144 includes examples of other matters that may need to be communicated timely in the course of the component auditor's work.

A107. The nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties.⁷⁷ In a group audit there may be a higher risk of material misstatement of the group financial statements, including due to fraud, associated with related party relationships when:

⁷⁶ ISA (NZ) 315 (Revised 2019), paragraph 25(b)

⁷⁷ ISA (NZ) 550, paragraph 2

ISA (NZ) 600 (Revised)

- The group structure is complex;
- The group's information systems are not integrated and therefore less effective in identifying and recording related party relationships and transactions; and
- There are numerous or frequent related party transactions between entities and business units.

Planning and performing the audit with professional scepticism, as required by ISA (NZ) 200,⁷⁸ is therefore particularly important when these circumstances exist.

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 33)

A108. The process to identify and assess the risks of material misstatement of the group financial statements is iterative and dynamic, and may be challenging, particularly when the component's activities are complex or specialised, or when there are many components across multiple locations. In applying ISA (NZ) 315 (Revised 2019),⁷⁹ the auditor develops initial expectations about the potential risks of material misstatement and an initial identification of the significant classes of transactions, account balances and disclosures of the group financial statements based on their understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control.

A109. The initial expectations about the potential risks of material misstatement take into account the auditor's understanding of the group, including its entities or business units, and the environments and industries in which they operate. Based on the initial expectations, the group auditor may, and often will, involve component auditors in risk assessment procedures as they may have direct knowledge and experience with the entities or business units that may be helpful in understanding the activities and related risks, and where risks of material misstatement of the group financial statements may arise in relation to those entities or business units.

A110. For identified risks of material misstatement at the assertion level, the group auditor is required to take responsibility for assessing inherent risk. Such assessment involves assessing the likelihood and magnitude of misstatement, which takes into account how, and the degree to which:⁸⁰

- Inherent risk factors affect the susceptibility of relevant assertions to misstatement.
- The risks of material misstatement at the group financial statement level affect the assessment of inherent risk for risks of material misstatement at the assertion level.

A111. Based on the risk assessment procedures performed, the group auditor may determine that an assessed risk of material misstatement of the group financial statements only arises in relation to financial information of certain components. For example, the risk of material misstatement relating to a legal claim may only exist in entities or business units that operate in a certain jurisdiction or in entities or business units that have similar operations or activities.

⁷⁸ ISA (NZ) 200, paragraph [4517](#)

⁷⁹ ISA (NZ) 315 (Revised 2019), paragraph A126

⁸⁰ ISA (NZ) 315 (Revised 2019), paragraph 31

ISA (NZ) 600 (Revised)

A112. Appendix 3 sets out examples of events and conditions that, individually or together, may indicate risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process.

Fraud

A113. In applying ISA (NZ) 240,⁸¹ the auditor is required to identify and assess the risks of material misstatement of the financial statements due to fraud, and to design and perform further audit procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement due to fraud at the assertion level. Information used to identify the risks of material misstatement of the group financial statements due to fraud may include the following:

- Group management's assessment of the risk that the group financial statements may be materially misstated due to fraud.
- Group management's process for identifying and responding to the fraud risks ~~of fraud~~ in the group financial statements, including any specific fraud risks identified by group management, or classes of transactions, account balances, or disclosures for which a fraud risk ~~of fraud~~ is higher.
- Whether there are particular components that are more susceptible to risks of material misstatement due to fraud.
- Whether any fraud risk factors or indicators of management bias exist in the consolidation process.
- How those charged with governance of the group monitor group management's processes for identifying and responding to the fraud risks ~~of fraud~~ in the group, and the controls group management has established to mitigate these risks.
- Responses of those charged with governance of the group, group management, appropriate individuals within the internal audit function (and when appropriate, component management, the component auditors, and others) to the group auditor's Einquiry about whether they have knowledge of any fraud or actual, suspected fraud, including allegations of, or alleged fraud, affecting a component or the group.

Considerations When Component Auditors Are Involved (Ref: Para. 34)

A114. When the group auditor involves component auditors in the design and performance of risk assessment procedures, the group auditor remains responsible for having an understanding of the group and its environment, the applicable financial reporting framework and the group's system of internal control to have a sufficient basis for the identification and assessment of the risks of material misstatement of the group financial statements in accordance with paragraph 33.

A115. When the audit evidence obtained from the risk assessment procedures does not provide an appropriate basis for the identification and assessment of the risks of material misstatement,

⁸¹ ISA (NZ) 240, paragraphs 2639, 3146

ISA (NZ) 600 (Revised)

ISA (NZ) 315 (Revised 2019)⁸² requires the auditor to perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.

Materiality*Component Performance Materiality* (Ref: Para. 35(a))

A116. Paragraph 35(a) requires the group auditor to determine component performance materiality for each of the components where audit procedures are performed on financial information that is disaggregated. The component performance materiality amount may be different for each component. Also, the component performance materiality amount for an individual component need not be an arithmetical portion of the group performance materiality and, consequently, the aggregate of component performance materiality amounts may exceed group performance materiality.

A117. This ISA (NZ) does not require component performance materiality to be determined for each class of transactions, account balance or disclosure for components at which audit procedures are performed. However, if, in the specific circumstances of the group, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements, ISA (NZ) 320⁸³ requires a determination of the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. In these circumstances, the group auditor may need to consider whether a component performance materiality lower than the amount communicated to the component auditor may be appropriate for those particular classes of transactions, account balances or disclosures.⁸⁴

A118. The determination of component performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement. Factors the group auditor may take into account in setting component performance materiality include the following:

- The extent of disaggregation of the financial information across components (e.g., as the extent of disaggregation across components increases, a lower component performance materiality ordinarily would be appropriate to address aggregation risk). The relative significance of the component to the group may affect the extent of disaggregation (e.g., if a single component represents a large portion of the group, there likely may be less disaggregation across components).
- Expectations about the nature, frequency, and magnitude of misstatements in the component financial information, for example:
 - Whether there are risks that are unique to the financial information of the component (e.g., industry-specific accounting matters, unusual or complex transactions).

⁸² ISA (NZ) 315 (Revised 2019), paragraph 35

⁸³ ISA (NZ) 320, paragraphs 10 and A11–A12

⁸⁴ ISA (NZ) 320, paragraph A13

ISA (NZ) 600 (Revised)

- The nature and extent of misstatements identified at the component in prior audits.

A119. To address aggregation risk, paragraph 35(a) requires component performance materiality to be lower than group performance materiality. As explained in paragraph A118, as the extent of disaggregation across components increases, a lower component performance materiality amount ordinarily would be appropriate to address aggregation risk. In some circumstances, however, component performance materiality may be set at an amount closer to group performance materiality because there is less aggregation risk, such as when the financial information for one component represents a substantial portion of the group financial statements. When determining component performance materiality for a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may take into account the group's ownership percentage and the share of the investee's profits and losses.

A120. In some cases, further audit procedures may be performed by the group auditor or a component auditor on a significant class of transactions or significant account balance as a single population (i.e., not disaggregated across components). In such cases, group performance materiality often will be used for purposes of performing these procedures.

“Clearly Trivial” Threshold (Ref: Para: 35(b))

A121. The threshold for communicating misstatements to the group auditor is set at an amount equal to, or lower than, the amount regarded as clearly trivial for the group financial statements. In accordance with ISA (NZ) 450,⁸⁵ this threshold is the amount below which misstatements would not need to be accumulated because the group auditor expects that the accumulation of such amounts clearly would not have a material effect on the group financial statements.

Considerations When Component Auditors Are Involved

Communicating Component Performance Materiality (Ref: Para. 36)

A122. In some cases, it may be appropriate for the group auditor to involve the component auditor in determining an appropriate component performance materiality amount, in view of the component auditor's knowledge of the component and potential sources of misstatement of the component financial information. In this regard, the group auditor also may consider communicating group performance materiality to the component auditor to support collaboration in determining whether component performance materiality, in relation to group performance materiality, is appropriate in the circumstances.

A123. Component performance materiality is based, at least in part, on expectations about the nature, frequency, and magnitude of misstatements in the component financial information. Therefore, ongoing communication between the component auditor and the group auditor is important, particularly if the number and magnitude of misstatements identified by the component auditor are higher than expected.

⁸⁵ ISA (NZ) 450, paragraph A3

ISA (NZ) 600 (Revised)**Responding to the Assessed Risks of Material Misstatement (Ref: Para. 37)***Performing Further Audit Procedures***Performing Further Audit Procedures Centrally**

A124. Further audit procedures may be designed and performed centrally if the audit evidence to be obtained from performing further audit procedures on one or more significant classes of transactions, account balances or disclosures in the aggregate will respond to the assessed risks of material misstatement, for example, if the accounting records for the revenue transactions of the entire group are maintained centrally (e.g., at a shared service centre). Factors that may be relevant to the auditor's determination of whether to perform further audit procedures centrally include, for example:

- The level of centralisation of activities relevant to financial reporting.
- The nature and extent of commonality of controls.
- The similarity of the group's activities and business lines.

A125. The group auditor may determine that the financial information of several components can be considered as one population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogeneous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way.

A126. When further audit procedures are performed centrally, component auditors may still be involved. For example, when the group has multiple shared service centres, the group auditor may involve component auditors in the performance of further audit procedures for these shared service centres.

Performing Further Audit Procedures at the Component Level

A127. In other circumstances, procedures to respond to the risks of material misstatement of the group financial statements that are related to the financial information of a component may be more effectively performed at the component level. This may be the case when the group has:

- Different revenue streams;
- Multiple lines of business;
- Operations across multiple locations; or
- Decentralised systems of internal control.

Large Number of Components Whose Financial Information Is Individually Immaterial but Material in the Aggregate to the Group Financial Statements

A128. A group may be comprised of a large number of components whose financial information is individually immaterial but material in the aggregate to the group financial statements. Circumstances such as these in which the significant classes of transactions, account balances or disclosures in the group financial statements are disaggregated over a large number of components may present additional challenges for the group auditor in planning and

ISA (NZ) 600 (Revised)

performing further audit procedures.

A129. In some cases, it may be possible to obtain sufficient appropriate audit evidence by performing further audit procedures centrally on these significant classes of transactions, account balances or disclosures (e.g., if they are homogeneous, subject to common controls and access to appropriate information can be obtained). The further audit procedures may also include substantive analytical procedures in accordance with ISA (NZ) 520.⁸⁶ Depending on the circumstances of the engagement, the financial information of the components may be aggregated at appropriate levels for purposes of developing expectations and determining the amount of any difference of recorded amounts from expected values in performing the substantive analytical procedures. The use of automated tools and techniques may be helpful in these circumstances.

A130. In other cases, it may be necessary to perform further audit procedures at selected components to address the risks of material misstatement of the group financial statements. The determination of the components at which audit procedures are to be performed, and the nature, timing and extent of further audit procedures to be performed at the selected components, are matters of professional judgement. In these circumstances, introducing an element of unpredictability in the components selected for testing also may be helpful in relation to the risks of material misstatement of the group financial statements due to fraud (also see paragraph A136).

The Nature and Extent of Further Audit Procedures

A131. In response to the assessed risks of material misstatement, the group auditor may determine the following scope of work to be appropriate at a component (with the involvement of component auditors, as applicable):

- Design and perform further audit procedures on the entire financial information of the component;
- Design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; or
- Perform specific further audit procedures.

A132. Although the group auditor takes responsibility for the nature, timing and extent of further audit procedures to be performed, component auditors can be, and often are, involved in all phases of the group audit, including in the design and performance of further audit procedures.

Design and Perform Further Audit Procedures on the Entire Financial Information of the Component

A133. The group auditor may determine that designing and performing further audit procedures on the entire financial information of a component is an appropriate approach, including when:

- Audit evidence needs to be obtained on all or a significant proportion of a component's

⁸⁶ ISA (NZ) 520, *Analytical Procedures*

ISA (NZ) 600 (Revised)

financial information to respond to the assessed risks of material misstatement of the group financial statements.

- There is a pervasive risk of material misstatement of the group financial statements due to the existence of events or conditions at the component that may be relevant to the group auditor's evaluation of group management's assessment of the group's ability to continue as a going concern.

Design and Perform Further Audit Procedures on One or More Classes of Transactions, Account Balances or Disclosures

A134. The group auditor may determine that designing and performing further audit procedures on one or more particular classes of transactions, account balances, or disclosures of the financial information of a component is an appropriate approach to address assessed risks of material misstatement of the group financial statements. For example, a component may have limited operations but holds a significant portion of the land and buildings of the group or has significant tax balances.

Perform Specific Further Audit Procedures

A135. The group auditor may determine that designing and performing specific further audit procedures on the financial information of a component is an appropriate approach, such as when audit evidence needs to be obtained for one or more relevant assertions only. For example, the group auditor may centrally test the class of transaction, account balance or disclosure and may require the component auditor to perform specific further audit procedures at the component (e.g., specific further audit procedures related to the valuation of claims or litigation in the component's jurisdiction or the existence of an asset).

Element of Unpredictability

A136. Incorporating an element of unpredictability in the type of work to be performed, the entities or business units at which procedures are performed and the extent to which the group auditor is involved in the work, may increase the likelihood of identifying a material misstatement of the components' financial information that may give rise to a material misstatement of the group financial statements due to fraud.⁸⁷

Operating Effectiveness of Controls

A137. The group auditor may rely on the operating effectiveness of controls that operate throughout the group in determining the nature, timing and extent of substantive procedures to be performed at either the group level or at the components. ISA (NZ) 330⁸⁸ requires the auditor to design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of those controls. Component auditors may be involved in designing and performing such tests of controls.

A138. If deviations from controls upon which the auditor intends to rely are detected,

⁸⁷ ISA (NZ) 240, paragraph ~~30(e)~~43

⁸⁸ ISA (NZ) 330, paragraph 8

ISA (NZ) 600 (Revised)

ISA (NZ) 330⁸⁹ requires the auditor to make specific einquiries to understand these matters and their potential consequences. If more deviations than expected are detected as a result of testing the operating effectiveness of the controls, the group auditor may need to revise the group audit plan. Possible revisions to the group audit plan may include:

- Requesting additional substantive procedures to be performed at certain components.
- Identifying and testing the operating effectiveness of other relevant controls that are designed and implemented effectively.
- Increasing the number of components selected for further audit procedures.

A139. When the operating effectiveness of controls is tested centrally (e.g., controls at a shared service centre or testing of common controls), the group auditor may need to communicate information about the audit work performed to the component auditors. For example, when a component auditor is requested to design and perform substantive procedures on the entire financial information of the component, or design and perform substantive procedures on one or more classes of transactions, account balances or disclosures, the component auditor may discuss with the group auditor about the control testing performed centrally to determine the nature, timing and extent of the substantive procedures.

Consolidation Process

Consolidation Procedures (Ref: Para. 38)

A140. The further audit procedures on the consolidation process, including sub-consolidations, may include:

- Determining that the necessary journal entries are reflected in the consolidation; and
- Evaluating the operating effectiveness of the controls over the consolidation process and responding appropriately if any controls are determined to be ineffective.

Consolidation Adjustments and Reclassifications (Ref: Para. 38(b))

A141. The consolidation process may require adjustments and reclassifications to amounts reported in the group financial statements that do not pass through the usual IT applications, and may not be subject to the same controls to which other financial information is subject. The group auditor's evaluation of the appropriateness, completeness and accuracy of the adjustments and reclassifications may include:

- Evaluating whether significant adjustments appropriately reflect the events and transactions underlying them;
- Determining whether those entities or business units whose financial information has been included in the group financial statements were appropriately included;
- Determining whether significant adjustments have been correctly calculated, processed and authorised by group management and, when applicable, by component management;

⁸⁹ ISA (NZ) 330, paragraph 17

ISA (NZ) 600 (Revised)

- Determining whether significant adjustments are properly supported and sufficiently documented; and
- Evaluating the reconciliation and elimination of intra-group transactions, unrealised profits, and intra-group account balances.

Considerations When Component Auditors Are Involved (Ref: Para. 42–43)

A142. When the group auditor involves component auditors in the design or performance of further audit procedures, the component auditor may determine that the use of the work of an auditor's expert is appropriate and communicate this to the group auditor. In such circumstances, when determining whether the component auditor's design and performance of further audit procedures is appropriate, the group auditor may, for example, discuss with the component auditor:

- The nature, scope and objectives of the auditor's expert's work.
- The component auditor's evaluation of the adequacy of the work of the auditor's expert for the group auditor's purposes.

A143. The appropriate level of the group auditor's involvement may depend on the circumstances and the structure of the group and other factors, such as the group auditor's previous experience with the component auditors that perform procedures on the consolidation process, including sub-consolidations, and the circumstances of the group audit engagement (e.g., if the financial information of an entity or business unit has not been prepared in accordance with the same accounting policies applied to the group financial statements).

Evaluating the Component Auditor's Communication and the Adequacy of Their Work*Communication about Matters Relevant to the Group Auditor's Conclusion with Regard to the Group Audit* (Ref: Para. [4546](#))

A144. Although the matters required to be communicated in accordance with paragraph [4546](#) are relevant to the group auditor's conclusion with regard to the group audit, certain matters may be communicated during the course of the component auditor's procedures. In addition to the matters in paragraphs 32 and ~~5051~~, such matters may include, for example:

- Information about breaches of relevant ethical requirements, including identified breaches of independence provisions;
- Information about instances of non-compliance with laws or regulations;
- Newly arising significant risks of material misstatement, including risks of [material misstatement due to](#) fraud;
- ~~Fraud Identified~~ or suspected fraud or illegal acts involving component management or employees that could have a material effect on the group financial statements; or
- Significant and unusual transactions.

Communication of Misstatements of Component Financial Information (Ref: Para. [4546](#)(e))

A145. Knowledge about corrected and uncorrected misstatements across components may alert

ISA (NZ) 600 (Revised)

the group auditor to potential pervasive internal control deficiencies, when considered along with the communication of deficiencies in accordance with paragraph 4546(g). In addition, a higher than expected number of identified misstatements (uncorrected or corrected) may indicate a higher risk of undetected misstatements, which may lead the group auditor to conclude that additional audit procedures need to be performed at certain components.

Component Auditor's Overall Findings or Conclusions (Ref: Para. 4546(k))

A146. The form and content of the deliverables from the component auditor are influenced by the nature and extent of the audit work the component auditor has been requested to perform. The group auditor's firm policies or procedures may address the form or specific wording of an overall conclusion from the component auditor on the audit work performed for purposes of the group audit. In some cases, local law or regulation may specify the form of conclusion (e.g., an opinion) to be provided by the component auditor.

Evaluating Whether Communications with the Component Auditor Are Adequate for the Group Auditor's Purposes (Ref: Para. 4647(b))

A147. If the group auditor determines that the component auditor's communications are not adequate for the group auditor's purposes, the group auditor may consider whether, for example:

- Further information can be obtained from the component auditor (e.g., through further discussions or meetings);
- It is necessary to review additional component auditor audit documentation in accordance with paragraph 4748;
- Additional audit procedures may need to be performed in accordance with paragraph 4849; or
- There are any concerns about the component auditor's competence or capabilities.

Reviewing Additional Component Auditor Audit Documentation (Ref: Para. 4748)

A148. Paragraph A75 provides guidance for the group auditor in tailoring the nature, timing and extent of the direction and supervision of the component auditor, and the review of their work, based on the facts and circumstances of the group audit and other matters (e.g., the assessed risks of material misstatement of the group financial statements). The group auditor's consideration in accordance with paragraph 4748(c) also may be affected by the following matters relevant to the group auditor's ongoing involvement in the work of the component auditor:

- Communications from the component auditor, including those in accordance with paragraph 4546 of this ISA (NZ); and
- The review of component auditor audit documentation by the group auditor during the course of the group audit (e.g., to fulfill the requirements of paragraphs 34, 42 and 43) or by the group engagement partner in accordance with paragraph 31 of ISA (NZ) 220 (Revised).

A149. Other factors that may affect the group auditor's determination about whether, and the

ISA (NZ) 600 (Revised)

extent to which, it is necessary to review additional component auditor audit documentation in the circumstances include:

- The degree to which the component auditor was involved in risk assessment procedures and in the identification and assessment of the risks of material misstatement of the group financial statements;
- The significant judgements made by, and the findings or conclusions of, the component auditor about matters that are material to the group financial statements;
- The competence and capabilities of more experienced engagement team members from the component auditor responsible for reviewing the work of less experienced individuals; and
- Whether the component auditor and group auditor are subject to common policies or procedures for review of audit documentation.

Subsequent Events (Ref: Para. ~~49–50~~[50–51](#))

A150. The group auditor may:

- Request a component auditor to perform subsequent events procedures to assist the group auditor to identify events that occur between the dates of the financial information of the components and the date of the auditor's report on the group financial statements.
- Perform procedures to cover the period between the date of communication of subsequent events by the component auditor and the date of the auditor's report on the group financial statements.

Evaluating the Sufficiency and Appropriateness of Audit Evidence Obtained

Sufficiency and Appropriateness of Audit Evidence (Ref: Para. ~~51~~[52](#))

A151. The audit of group financial statements is a cumulative and iterative process. As the group auditor performs planned audit procedures, the audit evidence obtained may cause the group auditor to modify the nature, timing or extent of other planned audit procedures as information may come to the group auditor's attention that differs significantly from the information on which the risk assessment was based. For example:

- The misstatements identified at a component may need to be considered in relation to other components; or
- The group auditor may become aware of access restrictions to information or people at a component because of changes in the environment (e.g., war, civil unrest or outbreaks of disease).

In such circumstances, the group auditor may need to re-evaluate the planned audit procedures, based on the revised consideration of assessed risks for all or some of the significant classes of transactions, account balances, or disclosures and related assertions.

A152. The evaluation required by paragraph ~~51~~[52](#) assists the group auditor in determining whether the overall group audit strategy and group audit plan developed to respond to the assessed

ISA (NZ) 600 (Revised)

risks of material misstatement of the group financial statements continues to be appropriate. The requirement in ISA (NZ) 330⁹⁰ for the auditor, irrespective of the assessed risks of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance, and disclosure also may be helpful for purposes of this evaluation in the context of the group financial statements.

A153. The group auditor may consider the engagement team's exercise of professional scepticism when evaluating the sufficiency and appropriateness of audit evidence obtained. For example, the group auditor may consider whether matters such as those described in paragraph A17 have inappropriately led the engagement team to:

- Obtain audit evidence that is easier to access without giving appropriate consideration to its relevance and reliability;
- Obtain less persuasive evidence than is necessary in the circumstances; or
- Design and perform audit procedures in a manner that is biased towards obtaining evidence that is corroborative or excluding evidence that is contradictory.

A154. ISA (NZ) 220 (Revised)⁹¹ requires the engagement partner to determine, on or before the date of the auditor's report, through review of audit documentation and discussion with the engagement team, that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued. Information that may be relevant to the group auditor's evaluation of the audit evidence obtained from the work performed by component auditors depends on the facts and circumstances of the group audit, and may include:

- The communications from the component auditors required by paragraph 4546, including the overall findings or conclusions of the component auditors on the work performed for purposes of the group audit;
- Other communications from the component auditors throughout the group audit, including those required by paragraph 32; and
- The group auditor's direction and supervision of the component auditors, and review of their work, including, as applicable, the group auditor's review of additional component auditor audit documentation in accordance with paragraph 4748.

A155. In some circumstances, an overall summary memorandum describing the work performed and the results thereof may provide a basis on its own for the group auditor to conclude that the work performed and audit evidence obtained by the component auditor is sufficient for purposes of the group audit. This may be the case, for example, when the component auditor has been requested to perform specific further audit procedures as identified and communicated by the group auditor.

⁹⁰ ISA (NZ) 330, paragraph 18

⁹¹ ISA (NZ) 220 (Revised), paragraph 32

ISA (NZ) 600 (Revised)

Evaluating the Effect on the Group Audit Opinion (Ref: Para. [5253](#))

A156. The group engagement partner's evaluation may include a consideration of whether corrected and uncorrected misstatements communicated by component auditors indicate a systemic issue (e.g., regarding transactions subject to common accounting policies or common controls) that may affect other components.

Auditor's Report (Ref: Para. [5354](#))

A157. Although component auditors may perform work on the financial information of the components for the group audit and as such are responsible for their overall findings or conclusions, the group engagement partner or the group engagement partner's firm is responsible for the group audit opinion.

A158. When the group audit opinion is modified because the group auditor was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Qualified Opinion or Basis for Disclaimer of Opinion section in the auditor's report on the group financial statements describes the reasons for that inability.⁹² In some circumstances, a reference to a component auditor may be necessary to adequately describe the reasons for the modified opinion, for example, when the component auditor is unable to perform or complete the work requested on the component financial information due to circumstances beyond the control of component management.

Communication with Group Management and Those Charged with Governance of the Group*Communication with Group Management* (Ref: Para. [54–5655-57](#))

A159. The group audit may be complex due to the number and nature of the entities and business units comprising the group. In addition, as explained in paragraph A7, the group auditor may determine that certain entities or business units may be considered together as a component for purposes of planning and performing the group audit. Therefore, discussing with group management an overview of the planned scope and timing may help in coordinating the work performed at components, including when component auditors are involved, and in identifying component management (see paragraph A24).

A160. ISA (NZ) 240⁹³ contains requirements and guidance on the communication of fraud [or suspected fraud](#) to management and ~~when management may be involved in the fraud~~, to those charged with governance.

A161. Group management may need to keep certain material sensitive information confidential. Examples of matters that may be significant to the financial statements of the component of which component management may be unaware include the following:

- Potential litigation.
- Plans for abandonment of material operating assets.
- Subsequent events.

⁹² ISA (NZ) 705 (Revised), paragraphs 20 and 24

⁹³ ISA (NZ) 240, paragraphs [41–4364-66](#)

ISA (NZ) 600 (Revised)

- Significant legal agreements.

A162. Group management may inform the group auditor about non-compliance or suspected non-compliance with laws or regulations in entities or business units within the group. Paragraph A87 provides guidance for the group engagement partner in these circumstances.

Communication with Those Charged with Governance of the Group (Ref: Para. [5758](#))

A163. The matters the group auditor communicates to those charged with governance of the group may include those brought to the attention of the group auditor by component auditors that the group auditor judges to be significant to the responsibilities of those charged with governance of the group. Communication with those charged with governance of the group may take place at various times during the group audit. For example, the matter referred to in paragraph [5758\(a\)](#) may be communicated after the group auditor has determined the work to be performed on the financial information of the components. On the other hand, the matter referred to in paragraph [5758\(b\)](#) may be communicated at the end of the audit, and the matters referred to in paragraph [5758\(c\)–\(d\)](#) may be communicated when they occur.

A164. ISA (NZ) 260 (Revised)⁹⁴ requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit. For a group audit, this communication helps those charged with governance understand the group auditor's determination of the components at which audit work will be performed, including whether certain of the group's entities or business units will be considered together as a component, and the planned involvement of component auditors. This communication also helps to enable a mutual understanding of and discussion about the group and its environment (see paragraph 30) and areas, if any, in which those charged with governance may request the group auditor to undertake additional procedures.

Communication of Identified Deficiencies in Internal Control (Ref: Para. [5859](#))

A165. The group auditor is responsible for determining, on the basis of the audit work performed, whether one or more identified deficiencies, individually or in combination, constitute significant deficiencies.⁹⁵ The group auditor may request input from the component auditor about whether an identified deficiency or combination of deficiencies at the component is a significant deficiency in internal control.

Documentation (Ref: Para. [5960](#))

A166. Other ISAs (NZ) contain specific documentation requirements that are intended to clarify the application of ISA (NZ) 230 in the particular circumstances of those other ISAs (NZ). The Appendix to ISA (NZ) 230 lists other ISAs (NZ) that contain specific documentation requirements and guidance.

A167. The audit documentation for the group audit supports the group auditor's evaluation in accordance with paragraph [51-52](#) as to whether sufficient appropriate audit evidence has been obtained on which to base the group audit opinion. Also see paragraph A154.

⁹⁴ ISA (NZ) 260 (Revised), paragraph 15

⁹⁵ ISA (NZ) 265, paragraph 8

ISA (NZ) 600 (Revised)

A168. The audit documentation for the group audit comprises:

- The documentation in the group auditor's file; and
- The separate documentation in the respective component auditor files relating to the work performed by the component auditors for purposes of the group audit (i.e., component auditor audit documentation).

A169. The final assembly and retention of the audit documentation for a group audit is subject to the policies or procedures of the group auditor's firm in accordance with PES 3.⁹⁶ The group auditor may provide specific instructions to component auditors regarding the assembly and retention of the documentation of work performed by them for purposes of the group audit.

Basis for the Group Auditor's Determination of Components (Ref: Para: [5960\(b\)](#))

A170. The basis for the group auditor's determination of components may be documented in various ways, including, for example, documentation related to the ~~fulfillment~~fulfilment of the requirements in paragraphs 22, 33 and [5758\(a\)](#) of this ISA (NZ).

Basis for the Group Auditor's Determination of the Competence and Capabilities of Component Auditors (Ref: Para: [5960\(d\)](#))

A171. PES 3⁹⁷ provides guidance on matters that the firm's policies or procedures may address regarding the competence and capabilities of the engagement team members. Such policies or procedures may describe or provide guidance about how to document the determination of the competence and capabilities of the engagement team, including component auditors. For example, the confirmation obtained from the component auditor in accordance with paragraph 24 may include information about the component auditor's relevant industry experience. The group auditor also may ask for confirmation that the component auditor has sufficient time to perform the assigned audit procedures.

Documentation of the Direction and Supervision of Component Auditors and the Review of Their Work (Ref: Para. [5960\(f\)](#))

A172. As described in paragraph A75, the approach to direction, supervision and review in a group audit will be tailored by the group auditor based on the facts and circumstances of the engagement, and will generally include a combination of addressing the group auditor's firm policies or procedures and responses specific to the group audit. Such policies or procedures may also describe or provide guidance about the documentation of the group auditor's direction and supervision of the engagement team and the review of their work.

A173. ISA (NZ) 300⁹⁸ requires the auditor to develop an audit plan that includes a description of the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. When component auditors are involved, the extent of such descriptions will often vary by component, recognising that the planned nature, timing

⁹⁶ PES 3, paragraphs 31(f) and A83–A85

⁹⁷ PES 3, paragraph A96

⁹⁸ ISA (NZ) 300, paragraph 9

ISA (NZ) 600 (Revised)

and extent of direction and supervision of component auditors, and review of their work, may be influenced by the matters described in paragraph A51.

A174. The group auditor's documentation of the direction and supervision of component auditors and the review of their work may include, for example:

- Required communications with component auditors, including instructions issued and other confirmations required by this ISA (NZ).
- The rationale for the selection of visits to component auditor sites, attendees at meetings and the nature of the matters discussed.
- Matters discussed in meetings with component auditors or component management.
- The rationale for the group auditor's determination of component auditor audit documentation selected for review.
- Changes in the planned nature and extent of involvement in the work of component auditors, and the reasons why (e.g., assigning more experienced engagement team members in areas of the audit that are more complex or subjective than initially anticipated).

A175. Paragraph [47-48](#) requires the group auditor to determine whether, and the extent to which it is necessary to review additional component auditor audit documentation. Paragraphs A148–A149 provide guidance for the group auditor in making this determination.

A176. Component auditor audit documentation ordinarily need not be replicated in the group auditor's audit file. However, the group auditor may decide to summarise, replicate or retain copies of certain component auditor documentation in the group auditor's audit file to supplement the description of a particular matter in communications from the component auditor, including the matters required to be communicated by this ISA (NZ). Examples of such component auditor documentation may include:

- A listing or summary of the significant judgements made by the component auditor, and the conclusions reached thereon, that are relevant to the group audit;
- Matters that may need to be communicated to those charged with governance of the group; or
- Matters that may be determined to be key audit matters to be communicated in the auditor's report on the group financial statements.

A177. When required by law or regulation, certain component auditor documentation may need to be included in the group auditor's audit file, for example, to respond to the request of a regulatory authority to review documentation related to work performed by a component auditor.

A178. Policies or procedures established by the firm in accordance with the firm's system of quality management, or resources provided by the firm or a network, may assist the group auditor in documenting the direction and supervision of component auditors and the review of their work. For example, an electronic audit tool may be used to facilitate communications between the group auditor and component auditors. The electronic audit tool also may be used for audit documentation, including providing information about the reviewer(s) and the

ISA (NZ) 600 (Revised)

date(s) and extent of their review.

Additional Considerations When Access to Component Auditor Audit Documentation is Restricted (Ref: Para. [5960](#))

A179. Audit documentation for a group audit may present some additional complexities or challenges in certain circumstances. This may be the case, for example, when law or regulation restrict the component auditor from providing documentation outside of its jurisdiction, or when war, civil unrest or outbreaks of disease restrict access to relevant component auditor audit documentation.

A180. The group auditor may be able to overcome such restrictions by, for example:

- Visiting the location of the component auditor, or meeting with the component auditor in a location different from where the component auditor is located, to review the component auditor's audit documentation;
- Reviewing the relevant audit documentation remotely through the use of technology, when not prohibited by law or regulation;
- Requesting the component auditor to prepare and provide a memorandum that addresses the relevant information and holding discussions with the component auditor, if necessary, to discuss the contents of the memorandum; or
- Discussing with the component auditor the procedures performed, the evidence obtained and the conclusions reached by the component auditor.

It is a matter of professional judgement whether one or more of the actions described above may be sufficient to overcome the restrictions depending on the facts and circumstances of the group audit.

A181. When access to component auditor audit documentation is restricted, the group auditor's documentation nonetheless needs to comply with the requirements of the ISAs (NZ), including those relating to the documentation of the nature, timing and extent of the group auditor's direction and supervision of component auditors and the review of their work. The guidance in paragraphs A148–A149 may be helpful in determining the extent of the group auditor's review of the component auditor audit documentation in these circumstances. Paragraphs A176 and A177 provide examples of circumstances in which certain component auditor audit documentation may be included in the group auditor's audit file.

A182. If the group auditor is unable to overcome restrictions on access to the component auditor audit documentation, the group auditor may need to consider whether a scope limitation exists that may require a modification to the opinion on the group financial statements. See paragraph A45.

ISA (NZ) 600 (Revised)

Appendix 1

(Ref: Para. [A42A45](#))**[NZ] Illustration of Independent Auditor's Report When the Group Auditor Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion**

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

- Audit of a complete set of consolidated financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of responsibility of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The group auditor is unable to obtain sufficient appropriate audit evidence relating to a component accounted for by the equity method (recognised at \$15 million in the statement of financial position, which reflects total assets of \$60 million) because the group auditor did not have access to the accounting records, management, or auditor of the component.
- The group auditor has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.
- In the group engagement partner's judgement, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.¹
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.²
- The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.

¹ If, in the group engagement partner's judgement, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with ISA (NZ) 705 (Revised).

² ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA (NZ) 600 (Revised)

- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

ISA (NZ) 600 (Revised)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements³**Qualified Opinion**

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects (*or give a true and fair view of*), the consolidated financial position of the Group as at December 31, 20X1, and (*of*) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#) (NZ IFRS).

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of \$1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

³ The sub-title, "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title, "Report on Other Legal and Regulatory Requirements" is not applicable.

ISA (NZ) 600 (Revised)

Going Concern**No Material Uncertainty Related to Going Concern⁴**

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that management's⁵the directors' use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[Reporting in accordance with the reporting requirements in ISA (NZ) 720 (Revised)⁵ – see Illustration 6 in Appendix 2 of ISA (NZ) 720 (Revised). The last paragraph of the Other Information section in Illustration 6 would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.]

Directors' Responsibilities for the Consolidated Financial Statements⁶

[Reporting in accordance with ISA (NZ) 700 (Revised)⁷ – see Illustration 2 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised). The last two paragraphs which are applicable for audits of a FMC reporting entity considered to have a higher level of public accountability only would not be included.]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

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

[Auditor Address]

[Date]

⁴ ~~This additional sub-title may be useful to enhance intended users' understanding about the nature of the matters addressed in the Going Concern section of the auditor's report.~~

⁵ ISA ((NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

⁶ Throughout these illustrative auditor's reports, the term directors may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁷ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

ISA (NZ) 600 (Revised)**Appendix 2**

(Ref: Para. A85)

Understanding the Group's System of Internal Control

1. This appendix provides examples of matters related to internal control that may be helpful in obtaining an understanding of the system of internal control in the context of a group environment, and expands on how ISA (NZ) 315 (Revised 2019)¹ is to be applied in relation to an audit of group financial statements. The examples may not be relevant to every group audit engagement and the list of examples is not necessarily complete.

Control Environment

2. The group auditor's understanding of the control environment may include matters such as the following:
 - The structure of the governance and management functions across the group, and group management's oversight responsibilities, including arrangements for assigning authority and responsibility to management of entities or business units in the group.
 - How oversight over the group's system of internal control by those charged with governance is structured and organised.
 - How ethical and behavioural standards are communicated and reinforced in practice across the group, (e.g., group-wide programmes, such as codes of conduct and fraud prevention programmes).
 - The consistency of policies and procedures across the group, including a group financial reporting procedures manual.

The Group's Risk Assessment Process

3. The group auditor's understanding of the group's risk assessment process may include matters such as group management's risk assessment process, that is, the process for identifying, analysing and managing business risks, including the risk of fraud, that may result in material misstatement of the group financial statements. It may also include an understanding of how sophisticated the group's risk assessment process is and the involvement of entities and business units in this process.

The Group's Process to Monitor the System of Internal Control

4. The group auditor's understanding of the group's process to monitor the system of internal control may include matters such as monitoring of controls, including how the controls are monitored across the group and, when relevant, activities of the internal audit function across the group, including its nature, responsibilities and activities in respect of monitoring of controls at entities or business units in the group. ISA (NZ) 610 (Revised 2013)² requires the

¹ ISA (NZ) 315 (Revised 2019), Appendix 3

² ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 15

ISA (NZ) 600 (Revised)

auditor to evaluate the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control.

The Information System and Communication

5. The group auditor's understanding of the group's information system and communication may include matters such as the following:
 - The extent of centralisation in the group's IT environment and the commonality of IT applications, IT processes and IT infrastructure.
 - Group management's monitoring of operations and the financial results of entities or business units in the group, including regular reporting routines, which enables group management to monitor performance against budgets, and to take appropriate action.
 - Monitoring, controlling, reconciling, and eliminating intra-group transactions and unrealised profits, and intra-group account balances at group level.
 - A process for monitoring the timeliness and evaluating the accuracy and completeness of financial information received from entities or business units in the group.

Consolidation Process

6. The group auditor's understanding of the consolidation process may include matters such as the following:

Matters Relating to the Applicable Financial Reporting Framework

- The extent to which management of entities or business units in the group have an understanding of the applicable financial reporting framework.
- The process for identifying and accounting for entities or business units in the group in accordance with the applicable financial reporting framework.
- The process for identifying reportable segments for segment reporting in accordance with the applicable financial reporting framework.
- The process for identifying related party relationships and related party transactions for reporting in accordance with the applicable financial reporting framework.
- The accounting policies applied to the group financial statements, changes from those of the previous financial year, and changes resulting from new or revised standards under the applicable financial reporting framework.
- The procedures for dealing with entities or business units in the group with financial year-ends different from the group's year-end.

Matters Relating to the Consolidation Process

- Group management's process for obtaining an understanding of the accounting policies used by entities or business units in the group, and, when applicable, ensuring that

ISA (NZ) 600 (Revised)

uniform accounting policies are used to prepare the financial information of the entities or business units in the group for the group financial statements, and that differences in accounting policies are identified, and adjusted when required in terms of the applicable financial reporting framework. Uniform accounting policies are the specific principles, bases, conventions, rules, and practices adopted by the group, based on the applicable financial reporting framework, that the entities or business units in the group use to report similar transactions consistently. These policies are ordinarily described in the financial reporting procedures manual and reporting package issued by group management.

- Group management's process for ensuring complete, accurate and timely financial reporting by the entities or business units in the group for the consolidation.
- The process for translating the financial information of foreign entities or business units in the group into the currency of the group financial statements.
- How the group's IT environment is organised for the consolidation and the policies that define the flows of information in the consolidation process, including the IT applications involved.
- Group management's process for obtaining information on subsequent events.

Matters Relating to Consolidation Adjustments and Reclassifications:

- The process for recording consolidation adjustments, including the preparation, authorisation and processing of related journal entries, and the experience of personnel responsible for the consolidation.
- The consolidation adjustments required by the applicable financial reporting framework.
- The business rationale for the events and transactions that gave rise to the consolidation adjustments.
- Frequency, nature and size of transactions between entities or business units in the group.
- The procedures for monitoring, controlling, reconciling and eliminating intra-group transactions and unrealised profits, and intra-group account balances.
- Steps taken to arrive at the fair value of acquired assets and liabilities, procedures for amortising goodwill (when applicable), and impairment testing of goodwill, in accordance with the applicable financial reporting framework.
- Arrangements with a majority owner or minority interests regarding losses incurred by an entity or business unit in the group (e.g., an obligation of the minority interest to make good such losses).

Control Activities

7. The group auditor's understanding of the control activities component may include matters such as the following:

ISA (NZ) 600 (Revised)

- The commonality of information processing controls and general IT controls for all or part of the group.
- The extent of the commonality of the design of controls for all or part of the group that address risks of material misstatement of the group financial statements at the assertion level.
- The extent to which commonly designed controls have been implemented consistently for all or part of the group.

ISA (NZ) 600 (Revised)**Appendix 3**
(Ref: Para. A110)**Examples of Events or Conditions that May Give Rise to Risks of Material Misstatement of the Group Financial Statements**

The following are examples of events (including transactions) and conditions that may indicate the existence of risks of material misstatement of the group financial statements, whether due to fraud or error, including with respect to the consolidation process. The examples provided by inherent risk factor cover a broad range of events and conditions; however, not all events and conditions are relevant to every group audit engagement and the list of examples is not exhaustive. The events and conditions have been categorised by the inherent risk factor that may have the greatest effect in the circumstances. Importantly, due to the interrelationships among inherent risk factors, the example events and conditions also are likely to be subject to, or affected by, other inherent risk factors to varying degree. Also see ISA (NZ) 315 (Revised 2019), Appendix 2.

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Complexity	• The existence of complex transactions that are accounted for in more than one entity or business units in the group. • The application of accounting policies by entities or business units in the group that differ from those applied to the group financial statements. • Accounting measurements or disclosures that involve complex processes used by entities or business units in the group, such as accounting for complex financial instruments. • Operations that are subject to a high degree of complex regulation in multiple jurisdictions, or entities or business units in the group that operate in multiple industries that are subject to different types of regulation.
Subjectivity	• Judgements regarding which entities or business units in the group require incorporation of their financial information in the group financial statements in accordance with the applicable financial reporting framework, for example, whether any special-purpose entities or non-trading entities exist and require incorporation. • Judgements regarding the correct application of the requirements of the applicable financial reporting framework by entities or business units in the group.

ISA (NZ) 600 (Revised)

Inherent Risk Factor	Examples of Events or Conditions that May Give Rise to the Existence of Risks of Material Misstatement of the Group Financial Statements at the Assertion Level:
Change	• Frequent acquisitions, disposals or reorganisations.
Uncertainty	• Entities or business units in the group operating in foreign jurisdictions that may be exposed to factors such as unexpected government intervention in areas such as trade and fiscal policy, and restrictions on currency and dividend movements; and fluctuations in exchange rates.
Susceptibility to Misstatement Due to Management Bias or Other Fraud Risk Factors Insofar as They Affect Inherent Risk	• Unusual related party relationships and transactions. • Entities or business units in the group with different financial year-ends, which may be utilised to manipulate the timing of transactions. • Prior occurrences of unauthorised or incomplete consolidation adjustments. • Aggressive tax planning within the group, or large cash transactions with entities in tax havens. • Prior occurrences of intra-group account balances that did not balance or reconcile on consolidation. • Large or unusual cash transfers within the group, particularly to newly incorporated entities or business units operating in locations with a significant or heightened fraud risk

Indicators that the control environment, the group's risk assessment process or the group's process to monitor the group's system of internal control are not appropriate to the group's circumstances, considering the nature and complexity of the group, and do not provide an appropriate foundation for the other components of the group's system of internal control, include:

- Poor corporate governance structures, including decision making processes that are not transparent.
- Non-existent or ineffective controls over the group's financial reporting process, including inadequate group management information on monitoring of operations and financial results of entities or business units in the group.

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

~~This conformity statement accompanies but is not part of ISA (NZ) 600 (Revised).~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, issued by the International Auditing and Assurance Standards Board (~~IAASB~~), ~~an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

References to publicly traded entities have been broadened to refer to FMC reporting entities considered to have a higher level of public accountability in New Zealand

Compliance with this ISA (NZ) enables compliance with ISA 600 (Revised).

Comparison with Australian Auditing Standards

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 600 *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

ASA 600 conforms to ISA 600 (Revised).

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 600 (Revised) <i>Special Considerations—Audits of Group Financial Statements</i> (Including the Work of Component Auditors)</u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>

ISA (NZ) 610 (Revised 2013)

Issued ~~04/13~~10/25Compiled ~~06/23~~

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 610 (Revised 2013)

Using the Work of Internal Auditors ~~(ISA (NZ) 610 (Revised 2013))~~~~Issued April 2013~~

~~Effective for audits of historical financial statements for periods ending on or after 15 December 2013, except for material shaded in grey pertaining to the use of internal auditors to provide direct assistance which is effective for audits of financial statements for periods ending on or after 15 December, 2014.~~

~~This Standard supersedes International Standard on Auditing (New Zealand) 610 Using the Work Of Internal Auditors.~~

~~This Standard was issued by the New Zealand Auditing and Assurance Standards Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including June 2022.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 610 (Revised 2013) issued by the External Reporting Board in April 2013.~~

ISA (NZ) 610 (Revised 2013)**COPYRIGHT**

© External Reporting Board (“XRB”) 2013

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927238-24-0

ISA (NZ) 610 (Revised 2013)**Explanatory note**

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 610 (Revised 2013) *Using the Work of Internal Auditors* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 600 (Revised 2013) issued by the External Reporting Board in April 2013 (as amended to June 2022).

The revision of ISA (NZ) 610 (Revised 2013) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from the IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 610 (Revised 2013)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 610 (Revised 2013)

USING THE WORK OF INTERNAL AUDITORS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1-5
Relationship between ISA (NZ) 315 (Revised 2019) and ISA (NZ) 610 (Revised 2013)	6-10
The External Auditor's Responsibility for the Audit	11
Effective Date.....	12-NZ12.1
Objectives	13
Definitions	14
Requirements	
Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used	15-20
Using the Work of the Internal Audit Function.....	21-25
Determining Whether, In Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance	26-32
Using Internal Auditors to Provide Direct Assistance.....	33-35
Documentation.....	36-37
Application and Other Explanatory Material	
Definition of Internal Audit Function.....	A1-A4
Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used	A5-A23
Using the Work of the Internal Audit Function.....	A24-A30
Determining Whether, In Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance	A31-A39
Using Internal Auditors to Provide Direct Assistance.....	A40-A41
<u>Accompanying Attachment: Conformity to the International Standards on Auditing</u>	

International Standard on Auditing (New Zealand) (ISA (NZ)) 610 (Revised 2013), “*Using the Work of Internal Auditors*” should be read in conjunction with ISA (NZ) 200, “*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.”

ISA (NZ) 610 (Revised 2013)

History of Amendments

Table of pronouncements – ISA (NZ) 610 (Revised 2013) *Using the Work of Internal Auditors*

This table lists the pronouncements establishing and amending ISA (NZ) 610 (Revised 2013):

Pronouncements	Date approved	~~Effective date~~ <u>Application</u>
International Standard on Auditing (New Zealand) 610 (Revised 2013)	~~Feb 2013~~ <u>October 2025</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. This ISA (NZ) is effective for audits of historical financial statements for periods ending on or after 15 December 2013, except for material shaded in grey pertaining to the use of internal auditors to provide direct assistance which is effective for audits of financial statements for periods ending on or after 15 December 2014.</u>
~~Professional and Ethical Standard 3 (Amended), Quality Control for Firms that Perform Audits and Reviews of Financial Statement, and Other Assurance Engagements~~	~~Jan 2013~~	~~Effective on 1 January 2014.~~
~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1~~	~~June 2020~~	~~Effective on 15 July 2020.~~
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021.~~
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~	~~July 2021~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)~~	~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~

ISA (NZ) 610 (Revised 2013)

Table of Amended Paragraphs in ISA (NZ) 610		
Paragraph affected	How affected	By...[date]
A11	Amended	Professional and Ethical Standard 3 (Amended) [Jan 2013]
A14	Amended	Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]
3, 7, 8, A3, A4, A10, A21, A26, A36	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [Feb 2020]
34, A11	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Related Other Pronouncements from the Quality Management Projects [July 2021]
A16, A31, Footnotes 19 and 26	Amended, Deleted	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 610 (Revised 2013)**Introduction****Scope of this ISA (NZ)**

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the external auditor's responsibilities if using the work of internal auditors. This includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.
2. This ISA (NZ) does not apply if the entity does not have an internal audit function. (Ref: Para. A2)
3. If the entity has an internal audit function, the requirements in this ISA (NZ) relating to using the work of that function do not apply if:
 - (a) The responsibilities and activities of the function are not relevant to the audit; or
 - (b) Based on the auditor's preliminary understanding of the function obtained as a result of procedures performed under ISA (NZ) 315 (Revised 2019)², the external auditor does not expect to use the work of the function in obtaining audit evidence.

Nothing in this ISA (NZ) requires the external auditor to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor; it remains a decision of the external auditor in establishing the overall audit strategy.

4. Furthermore, the requirements in this ISA (NZ) relating to direct assistance do not apply if the external auditor does not plan to use internal auditors to provide direct assistance.
5. In some jurisdictions, the external auditor may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance. The ISAs (NZ) do not override laws or regulations that govern an audit of financial statements.³ Such prohibitions or restrictions will therefore not prevent the external auditor from complying with the ISAs (NZ). (Ref: Para. A31)

Relationship between ISA (NZ) 315 (Revised 2019) and ISA (NZ) 610 (Revised 2013)

6. Many entities establish internal audit functions as part of their internal control and governance structures. The objectives and scope of an internal audit function, the nature of its responsibilities and its organisational status, including the function's authority and accountability, vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance.
7. ISA (NZ) 315 (Revised 2019) addresses how the knowledge and experience of the internal audit function can inform the external auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control, and identification and assessment of risks of material misstatement.

² ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph A60

ISA (NZ) 610 (Revised 2013)

ISA (NZ) 315 (Revised 2019)⁴ also explains how effective communication between the internal and external auditors also creates an environment in which the external auditor can be informed of significant matters that may affect the external auditor's work.

8. Depending on whether the internal audit function's organisational status and relevant policies and procedures adequately support the objectivity of the internal auditors, the level of competency of the internal audit function, and whether the function applies a systematic and disciplined approach, the external auditor may also be able to use the work of the internal audit function in a constructive and complementary manner. This ISA (NZ) addresses the external auditor's responsibilities when, based on the external auditor's preliminary understanding of the internal audit function obtained as a result of procedures performed under ISA (NZ) 315 (Revised 2019), the external auditor expects to use the work of the internal audit function as part of the audit evidence obtained.⁵ Such use of that work modifies the nature or timing, or reduces the extent, of audit procedures to be performed directly by the external auditor.
9. In addition, this ISA (NZ) also addresses the external auditor's responsibilities if considering using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.
10. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with ISA (NZ) 330.⁶

The External Auditor's Responsibility for the Audit

11. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement. Although they may perform audit procedures similar to those performed by the external auditor, neither the internal audit function nor the internal auditors are independent of the entity as is required of the external auditor in an audit of financial statements in accordance with ISA (NZ) 200.⁷ This ISA (NZ), therefore, defines the conditions that are necessary for the external auditor to be able to use the work of internal auditors. It also defines the necessary work effort to obtain sufficient appropriate evidence that the work of the internal audit function, or internal auditors providing direct assistance, is adequate for the purposes of the audit. The requirements are designed to provide a framework for the external auditor's judgements regarding the use of the work of internal auditors to prevent over or undue use of such work.

Effective Date

12. ~~This ISA (NZ) is effective for audits of financial statements for periods ending on or after 15 December, 2013, except for material shaded in grey pertaining to the use of internal~~

⁴ ISA (NZ) 315 (Revised 2019), paragraph A24(a)(ii) and Appendix 4

⁵ See paragraphs 15-25

⁶ ISA (NZ) 330, *The Auditor's Responses to Assessed Risk*

⁷ ISA (NZ) 200, paragraph 1614

ISA (NZ) 610 (Revised 2013)

~~auditors to provide direct assistance which is effective for audits of financial statements for periods ending on or after 15 December, 2014. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments].~~ [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]

NZ12.1 This ~~ISA (NZ) Standard supersedes repeals International Standard on Auditing (New Zealand) ISA (NZ) 610, Using the Work of Internal Auditors issued in April 2023.~~

Objectives

13. The objectives of the external auditor, where the entity has an internal audit function and the external auditor expects to use the work of the function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, or to use internal auditors to provide direct assistance, are:
- (a) To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent;
- and having made that determination:
- (b) If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit; and
 - (c) If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.

Definition

14. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
- (a) Internal audit function – A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes. (Ref: Para. A1-A4)
 - (b) Direct assistance – The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.

Requirements

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

Evaluating the Internal Audit Function

15. The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following:
- (a) The extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors; (Ref: Para. A5-A9)
 - (b) The level of competence of the internal audit function; and (Ref: Para. A5-A9)

ISA (NZ) 610 (Revised 2013)

- (c) Whether the internal audit function applies a systematic and disciplined approach, including quality control. (Ref: Para. A10-A11)
16. The external auditor shall not use the work of the internal audit function if the external auditor determines that:
- (a) The function's organisational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;
 - (b) The function lacks sufficient competence; or
 - (c) The function does not apply a systematic and disciplined approach, including quality control. (Ref: Para. A12-A14)

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

17. As a basis for determining the areas and the extent to which the work of the internal audit function can be used, the external auditor shall consider the nature and scope of the work that has been performed, or is planned to be performed, by the internal audit function and its relevance to the external auditor's overall audit strategy and audit plan. (Ref: Para. A15-A17)
18. The external auditor shall make all significant judgements in the audit engagement and, to prevent undue use of the work of the internal audit function, shall plan to use less of the work of the function and perform more of the work directly: (Ref: Para A15-A17)
- (a) The more judgement is involved in:
 - (i) Planning and performing relevant audit procedures; and
 - (ii) Evaluating the audit evidence gathered; (Ref: Para A18-A19)
 - (b) The higher the assessed risk of material misstatement at the assertion level, with special consideration given to risks identified as significant; (Ref: Para. A20-A22)
 - (c) The less the internal audit function's organisational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and
 - (d) The lower the level of competence of the internal audit function.
19. The external auditor shall also evaluate whether, in aggregate, using the work of the internal audit function to the extent planned would still result in the external auditor being sufficiently involved in the audit, given the external auditor's sole responsibility for the audit opinion expressed. (Ref: Para A15-A22)
20. The external auditor shall, in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with ISA (NZ) 260 (Revised)⁸, communicate how the external auditor has planned to use the work of the internal audit function. (Ref: Para. A23)

⁸ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 15

ISA (NZ) 610 (Revised 2013)**Using the Work of the Internal Audit Function**

21. If the external auditor plans to use the work of the internal audit function, the external auditor shall discuss the planned use of its work with the function as a basis for coordinating their respective activities. (Ref: Para. A24-A26)
22. The external auditor shall read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.
23. The external auditor shall perform sufficient audit procedures on the body of work of the internal audit function as a whole that the external auditor plans to use to determine its adequacy for purposes of the audit, including evaluating whether:
 - (a) The work of the function had been properly planned, performed, supervised, reviewed and documented;
 - (b) Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions; and
 - (c) Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed. (Ref: Para. A27-A30)
24. The nature and extent of the external auditor's audit procedures shall be responsive to the external auditor's evaluation of:
 - (a) The amount of judgement involved;
 - (b) The assessed risk of material misstatement;
 - (c) The extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors; and
 - (d) The level of competence of the function;⁹ (Ref: Para. A27-A29)

and shall include reperformance of some of the work. (Ref: Para.A30)
25. The external auditor shall also evaluate whether the external auditor's conclusions regarding the internal audit function in paragraph 15 of this ISA (NZ) and the determination of the nature and extent of use of the work of the function for purposes of the audit in paragraphs 18-19 of this ISA (NZ) remain appropriate.

Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance*Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit*

26. The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. If so, paragraphs 27–35 and 37 do not apply. (Ref: Para. A31)

⁹ See paragraph 18

ISA (NZ) 610 (Revised 2013)

27. If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance. The external auditor's evaluation of the existence and significance of threats to the internal auditors' objectivity shall include enquiry of the internal auditors regarding interests and relationships that may create a threat to their objectivity. (Ref: Para. A32–A34)
28. The external auditor shall not use an internal auditor to provide direct assistance if:
- (a) There are significant threats to the objectivity of the internal auditor; or
 - (b) The internal auditor lacks sufficient competence to perform the proposed work. (Ref: Para. A32–A34)

Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance

29. In determining the nature and extent of work that may be assigned to internal auditors and the nature, timing and extent of direction, supervision and review that is appropriate in the circumstances, the external auditor shall consider:
- (a) The amount of judgement involved in:
 - (i) Planning and performing relevant audit procedures; and
 - (ii) Evaluating the audit evidence gathered;
 - (b) The assessed risk of material misstatement; and
 - (c) The external auditor's evaluation of the existence and significance of threats to the objectivity and level of competence of the internal auditors who will be providing such assistance. (Ref: Para. A35–A39)
30. The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:
- (a) Involve making significant judgements in the audit; (Ref: Para. A19)
 - (b) Relate to higher assessed risks of material misstatement where the judgement required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited; (Ref: Para. A38)
 - (c) Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or
 - (d) Relate to decisions the external auditor makes in accordance with this ISA (NZ) regarding the internal audit function and the use of its work or direct assistance. (Ref: Para. A35–A39)

ISA (NZ) 610 (Revised 2013)

31. Having appropriately evaluated whether and, if so, to what extent internal auditors can be used to provide direct assistance on the audit, the external auditor shall, in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with ISA (NZ) 260 (Revised),¹⁰ communicate the nature and extent of the planned use of internal auditors to provide direct assistance so as to reach a mutual understanding that such use is not excessive in the circumstances of the engagement. (Ref: Para. A39)
32. The external auditor shall evaluate whether, in aggregate, using internal auditors to provide direct assistance to the extent planned, together with the planned use of the work of the internal audit function, would still result in the external auditor being sufficiently involved in the audit, given the external auditor's sole responsibility for the audit opinion expressed.

Using Internal Auditors to Provide Direct Assistance

33. Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:
 - (a) Obtain written agreement from an authorised representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and
 - (b) Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.
34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with ISA (NZ) 220 (Revised)¹¹. In so doing:
 - (a) The nature, timing and extent of direction, supervision, and review shall recognise that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA (NZ); and
 - (b) The review procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to determine that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40-A41)

35. In directing, supervising and reviewing the work performed by internal auditors, the external auditor shall remain alert for indications that the external auditor's evaluations in paragraph 27 are no longer appropriate.

¹⁰ ISA (NZ) 260 (Revised), paragraph 15

¹¹ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*

ISA (NZ) 610 (Revised 2013)**Documentation**

36. If the external auditor uses the work of the internal audit function, the external auditor shall include in the audit documentation:
- (a) The evaluation of:
 - (i) Whether the function's organisational status and relevant policies and procedures adequately support the objectivity of the internal auditors;
 - (ii) The level of competence of the function; and
 - (iii) Whether the function applies a systematic and disciplined approach, including quality control;
 - (b) The nature and extent of the work used and the basis for that decision; and
 - (c) The audit procedures performed by the external auditor to evaluate the adequacy of the work used.
37. If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:
- (a) The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;
 - (b) The basis for the decision regarding the nature and extent of the work performed by the internal auditors;
 - (c) Who reviewed the work performed and the date and extent of that review in accordance with ISA (NZ) 230;¹²
 - (d) The written agreements obtained from an authorised representative of the entity and the internal auditors under paragraph 33 of this ISA (NZ); and
 - (e) The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

Application and Other Explanatory Material**Definition of Internal Audit Function (Ref: Para. 2, 14(a))**

- A1. The objectives and scope of internal audit functions typically include assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance processes, risk management and internal control such as the following:

¹² ISA (NZ) 230, *Audit Documentation*

ISA (NZ) 610 (Revised 2013)*Activities Relating to Governance*

- The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control information to appropriate areas of the organisation and effectiveness of communication among those charged with governance, external and internal auditors, and management.

Activities Relating to Risk Management

- The internal audit function may assist the entity by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control (including effectiveness of the financial reporting process).
- The internal audit function may perform procedures to assist the entity in the detection of fraud.

Activities Relating to Internal Control

- Evaluation of internal control. The internal audit function may be assigned specific responsibility for reviewing controls, evaluating their operation and recommending improvements thereto. In doing so, the internal audit function provides assurance on the control. For example, the internal audit function might plan and perform tests or other procedures to provide assurance to management and those charged with governance regarding the design, implementation and operating effectiveness of internal control, including those controls that are relevant to the audit.
 - Examination of financial and operating information. The internal audit function may be assigned to review the means used to identify, recognise, measure, classify and report financial and operating information, and to make specific enquiry into individual items, including detailed testing of transactions, balances and procedures.
 - Review of operating activities. The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non-financial activities of an entity.
 - Review of compliance with laws and regulations. The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.
- A2. Activities similar to those performed by an internal audit function may be conducted by functions with other titles within an entity. Some or all of the activities of an internal audit function may also be outsourced to a third-party service provider. Neither the title of the function, nor whether it is performed by the entity or a third-party service provider, are sole determinants of whether or not the external auditor can use the work of the function. Rather, it is the nature of the activities; the extent to which the internal audit function's organisational status and relevant policies and procedures support the

ISA (NZ) 610 (Revised 2013)

objectivity of the internal auditors; competence; and systematic and disciplined approach of the function that are relevant. References in this ISA (NZ) to the work of the internal audit function include relevant activities of other functions or third-party providers that have these characteristics.

- A3. In addition, those in the entity with operational and managerial duties and responsibilities outside of the internal audit function would ordinarily face threats to their objectivity that would preclude them from being treated as part of an internal audit function for the purpose of this ISA (NZ), although they may perform controls that can be tested in accordance with ISA (NZ) 330¹³. For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.
- A4. While the objectives of an entity's internal audit function and the external auditor differ, the function may perform audit procedures similar to those performed by the external auditor in an audit of financial statements. If so, the external auditor may make use of the function for purposes of the audit in one or more of the following ways:
- To obtain information that is relevant to the external auditor's assessments of the risks of material misstatements due to error or fraud. In this regard, ISA (NZ) 315 (Revised 2019)¹⁴ requires the external auditor to obtain an understanding of the nature of the internal audit function's responsibilities, its status within the organisation, and the activities performed, or to be performed, and make enquiries of appropriate individuals within the internal audit function (if the entity has such a function); or
 - Unless prohibited, or restricted to some extent, by law or regulation, the external auditor, after appropriate evaluation, may decide to use work that has been performed by the internal audit function during the period in partial substitution for audit evidence to be obtained directly by the external auditor.¹⁵

In addition, unless prohibited, or restricted to some extent, by law or regulation, the external auditor may use internal auditors to perform audit procedures under the direction, supervision and review of the external auditor (referred to as "direct assistance" in this ISA (NZ)).¹⁶

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

Evaluating the Internal Audit Function

Objectivity and Competence (Ref: Para. 15(a)-(b))

- A5. The external auditor exercises professional judgement in determining whether the work of the internal audit function can be used for purposes of the audit, and the nature and extent to which the work of the internal audit function can be used in the circumstances.
- A6. The extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors and the level of competence of the function are particularly important in determining whether to use and,

¹³ See paragraph 10

¹⁴ ISA (NZ) 315 (Revised 2019), paragraph 14(a)

¹⁵ See paragraphs 15-25

¹⁶ See paragraphs 26-35

ISA (NZ) 610 (Revised 2013)

if so, the nature and extent of the use of the work of the function that is appropriate in the circumstances.

A7. Objectivity refers to the ability to perform those tasks without allowing bias, conflict of interest or undue influence of others to override professional judgements. Factors that may affect the external auditor's evaluation include the following:

- Whether the organisational status of the internal audit function, including the function's authority and accountability, supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgements. For example, whether the internal audit function reports to those charged with governance or an officer with appropriate authority, or if the function reports to management, whether it has direct access to those charged with governance.
- Whether the internal audit function is free of any conflicting responsibilities, for example, having managerial or operational duties or responsibilities that are outside of the internal audit function.
- Whether those charged with governance oversee employment decisions related to the internal audit function, for example, determining the appropriate remuneration policy.
- Whether there are any constraints or restrictions placed on the internal audit function by management or those charged with governance, for example, in communicating the internal audit function's findings to the external auditor.
- Whether the internal auditors are members of relevant professional bodies and their memberships obligate their compliance with relevant professional standards relating to objectivity, or whether their internal policies achieve the same objectives.

A8. Competence of the internal audit function refers to the attainment and maintenance of knowledge and skills of the function as a whole at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards. Factors that may affect the external auditor's determination include the following:

- Whether the internal audit function is adequately and appropriately resourced relative to the size of the entity and the nature of its operations.
- Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements.
- Whether the internal auditors have adequate technical training and proficiency in auditing. Relevant criteria that may be considered by the external auditor in making the assessment may include, for example, the internal auditors' possession of a relevant professional designation and experience.
- Whether the internal auditors possess the required knowledge relating to the entity's financial reporting and the applicable financial reporting framework and whether the internal audit function possesses the necessary skills (for example, industry-specific knowledge) to perform work related to the entity's financial statements.

ISA (NZ) 610 (Revised 2013)

- Whether the internal auditors are members of relevant professional bodies that oblige them to comply with the relevant professional standards including continuing professional development requirements.
- A9. Objectivity and competence may be viewed as a continuum. The more the internal audit function's organisational status and relevant policies and procedures adequately support the objectivity of the internal auditors and the higher the level of competence of the function, the more likely the external auditor may make use of the work of the function and in more areas. However, an organisational status and relevant policies and procedures that provide strong support for the objectivity of the internal auditors cannot compensate for the lack of sufficient competence of the internal audit function. Equally, a high level of competence of the internal audit function cannot compensate for an organisational status and policies and procedures that do not adequately support the objectivity of the internal auditors.

Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))

- A10. The application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities distinguishes the activities of the internal audit function from other monitoring controls that may be performed within the entity.
- A11. Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:
- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programmes, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
 - Whether the internal audit function has appropriate quality control policies and procedures, for example, policies and procedures in that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

Circumstances When Work of the Internal Audit Function Cannot Be Used (Ref: Para. 16)

- A12. The external auditor's evaluation of whether the internal audit function's organisational status and relevant policies and procedures adequately support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether it applies a systematic and disciplined approach may indicate that the risks to the quality of the work of the function are too significant and therefore it is not appropriate to use any of the work of the function as audit evidence.
- A13. Consideration of the factors in paragraphs A7, A8 and A11 of this ISA (NZ) individually and in aggregate is important because an individual factor is often not sufficient to conclude that the work of the internal audit function cannot be used for purposes of the audit. For example, the internal audit function's organisational status is particularly important in evaluating threats to the objectivity of the internal auditors. If the internal audit function reports to management, this would be considered a significant threat to the

ISA (NZ) 610 (Revised 2013)

function's objectivity unless other factors such as those described in paragraph A7 of this ISA (NZ) collectively provide sufficient safeguards to reduce the threat to an acceptable level.

- A14. In addition, Professional and Ethical Standard 1¹⁷ states that a self-review threat is created when the external auditor accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the audit. This is because of the possibility that the engagement team will use the results of the internal audit service without properly evaluating those results or without exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. Professional and Ethical Standard 1¹⁸ discusses the prohibitions that apply in certain circumstances and the threats and the safeguards that can be applied to reduce the threats to an acceptable level in other circumstances.

Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that Can Be Used (Ref: Para. 17–19)

- A15. Once the external auditor has determined that the work of the internal audit function can be used for purposes of the audit, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the overall audit strategy and audit plan that the external auditor has established in accordance with ISA (NZ) 300.¹⁹
- A16. Examples of work of the internal audit function that can be used by the external auditor include the following:
- Testing of the operating effectiveness of controls.
 - Substantive procedures involving limited judgement.
 - Observations of inventory counts.
 - Tracing transactions through the information system relevant to financial reporting.
 - Testing of compliance with regulatory requirements.
- A17. The external auditor's determination of the planned nature and extent of use of the work of the internal audit function will be influenced by the external auditor's evaluation of the extent to which the internal audit function's organisational status and relevant policies and procedures adequately support the objectivity of the internal auditors and the level of competence of the internal audit function in paragraph 18 of this ISA (NZ). In addition, the amount of judgement needed in planning, performing and evaluating such work and the assessed risk of material misstatement at the assertion level are inputs to the external auditor's determination. Further, there are circumstances in which the external auditor cannot use the work of the internal audit function for purpose of the audit as described in paragraph 16 of this ISA (NZ).

¹⁷ Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand), paragraphs 605.4 A2–605.4 A3

¹⁸ Professional and Ethical Standard 1, paragraphs 605.1–R605.5

¹⁹ ISA (NZ) 300, *Planning an Audit of Financial Statements*

ISA (NZ) 610 (Revised 2013)

Judgements in planning and performing audit procedures and evaluating results (Ref: Para. 18(a), 30(a))

- A18. The greater the judgement needed to be exercised in planning and performing the audit procedures and evaluating the audit evidence, the external auditor will need to perform more procedures directly in accordance with paragraph 18 of this ISA (NZ), because using the work of the internal audit function alone will not provide the external auditor with sufficient appropriate audit evidence.
- A19. Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgements in the audit engagement in accordance with paragraph 18. Significant judgements include the following:
- Assessing the risks of material misstatement;
 - Evaluating the sufficiency of tests performed;
 - Evaluating the appropriateness of management's use of the going concern [assumption basis of accounting](#);
 - Evaluating significant accounting estimates; and
 - Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report.

Assessed risk of material misstatement (Ref: Para. 18(b))

- A20. For a particular account balance, class of transaction or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgement is often involved in planning and performing the audit procedures and evaluating the results thereof. In such circumstances, the external auditor will need to perform more procedures directly in accordance with paragraph 18 of this ISA (NZ), and accordingly, make less use of the work of the internal audit function in obtaining sufficient appropriate audit evidence. Furthermore, as explained in ISA (NZ) 200²⁰, the higher the assessed risks of material misstatement, the more persuasive the audit evidence required by the external auditor will need to be, and, therefore, the external auditor will need to perform more of the work directly.
- A21. As explained in ISA (NZ) 315 (Revised 2019)²¹, significant risks are risks assessed close to the upper end of the spectrum of inherent risk and therefore the external auditor's ability to use the work of the internal audit function in relation to significant risks will be restricted to procedures that involve limited judgement. In addition, where the risks of material misstatement is other than low, the use of the work of the internal audit function alone is unlikely to reduce audit risk to an acceptably low level and eliminate the need for the external auditor to perform some tests directly.
- A22. Carrying out procedures in accordance with this ISA (NZ) may cause the external auditor to re-evaluate the external auditor's assessment of the risks of material misstatement. Consequently, this may affect the external auditor's determination of whether to use the work of the internal audit function and whether further application of this ISA (NZ) is necessary.

²⁰ ISA (NZ) 200, paragraph [A32A37](#)

²¹ ISA (NZ) 315 (Revised 2019), paragraph 12(l)

ISA (NZ) 610 (Revised 2013)

Communication with Those Charged with Governance (Ref: Para. 20)

A23. In accordance with ISA (NZ) 260 (Revised),²² the external auditor is required to communicate with those charged with governance an overview of the planned scope and timing of the audit. The planned use of the work of the internal audit function is an integral part of the external auditor's overall audit strategy and is therefore relevant to those charged with governance for their understanding of the proposed audit approach.

Using the Work of the Internal Audit Function

Discussion and Coordination with the Internal Audit Function (Ref: Para. 21)

A24. In discussing the planned use of their work with the internal audit function as a basis for coordinating the respective activities, it may be useful to address the following:

- The timing of such work.
- The nature of the work performed.
- The extent of audit coverage.
- Materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures), and performance materiality.
- Proposed methods of item selection and sample sizes.
- Documentation of the work performed.
- Review and reporting procedures.

A25. Coordination between the external auditor and the internal audit function is effective when, for example:

- Discussions take place at appropriate intervals throughout the period.
- The external auditor informs the internal audit function of significant matters that may affect the function.
- The external auditor is advised of and has access to relevant reports of the internal audit function and is informed of any significant matters that come to the attention of the function when such matters may affect the work of the external auditor so that the external auditor is able to consider the implications of such matters for the audit engagement.

A26. ISA (NZ) 200²³ discusses the importance of the auditor planning and performing the audit with professional scepticism, including being alert to information that brings into question the reliability of documents and responses to enquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the work of the external auditor to the external auditor's attention.²⁴ The external auditor is then able to take such information into account in the external auditor's identification and assessment of risks of material misstatement. In addition, if such

²² ISA (NZ) 260 (Revised), paragraph 15

²³ ISA (NZ) 200, paragraphs [15-17](#) and [A261](#)

²⁴ ISA (NZ) 315 (Revised 2019), paragraph Appendix 4

ISA (NZ) 610 (Revised 2013)

information may be indicative of a heightened risk of a material misstatement of the financial statements or may be regarding any ~~actual, fraud or suspected or alleged~~ fraud, including allegations of fraud, the external auditor can take this into account in the external auditor's identification of risk of material misstatement due to fraud in accordance with ISA (NZ) 240.²⁵

Procedures to Determine the Adequacy of Work of the Internal Audit Function (Ref: Para. 23–24)

- A27. The external auditor's audit procedures on the body of work of the internal audit function as a whole that the external auditor plans to use provide a basis for evaluating the overall quality of the function's work and the objectivity with which it has been performed.
- A28. The procedures the external auditor may perform to evaluate the quality of the work performed and the conclusions reached by the internal audit function, in addition to reperformance in accordance with paragraph 24, include the following:
- Making enquiries of appropriate individuals within the internal audit function.
 - Observing procedures performed by the internal audit function.
 - Reviewing the internal audit function's work program and working papers.
- A29. The more judgement involved, the higher the assessed risk of material misstatement, the less the internal audit function's organisational status and relevant policies and procedures adequately support the objectivity of the internal auditors, or the lower the level of competence of the internal audit function, the more audit procedures are needed to be performed by the external auditor on the overall body of work of the function to support the decision to use the work of the function in obtaining sufficient appropriate audit evidence on which to base the audit opinion.

Reperformance (Ref: Para. 24)

- A30. For purposes of this ISA (NZ), reperformance involves the external auditor's independent execution of procedures to validate the conclusions reached by the internal audit function. This objective may be accomplished by examining items already examined by the internal audit function, or where it is not possible to do so, the same objective may also be accomplished by examining sufficient other similar items not actually examined by the internal audit function. Reperformance provides more persuasive evidence regarding the adequacy of the work of the internal audit function compared to other procedures the external auditor may perform in paragraph A28. While it is not necessary for the external auditor to do reperformance in each area of work of the internal audit function that is being used, some reperformance is required on the body of work of the internal audit function as a whole that the external auditor plans to use in accordance with paragraph 24. The external auditor is more likely to focus reperformance in those areas where more judgement was exercised by the internal audit function in planning, performing and evaluating the results of the audit procedures and in areas of higher risk of material misstatement.

²⁵ ISA (NZ) 315 (Revised 2019), Appendix 4 in relation to ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

ISA (NZ) 610 (Revised 2013)

Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance

Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit (Ref: Para. 5, 26–28)

- A31. In jurisdictions where the external auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant in the circumstances of a group audit, for the group auditor to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.²⁶
- A32. As stated in paragraph A7 of this ISA (NZ), objectivity refers to the ability to perform the proposed work without allowing bias, conflict of interest or undue influence of others to override professional judgements. In evaluating the existence and significance of threats to the objectivity of an internal auditor, the following factors may be relevant:
- The extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors.²⁷
 - Family and personal relationships with an individual working in, or responsible for, the aspect of the entity to which the work relates.
 - Association with the division or department in the entity to which the work relates.
 - Significant financial interests in the entity other than remuneration on terms consistent with those applicable to other employees at a similar level of seniority.

Material issued by relevant professional bodies for internal auditors may provide additional useful guidance.

- A33. There may also be some circumstances in which the significance of the threats to the objectivity of an internal auditor is such that there are no safeguards that could reduce them to an acceptable level. For example, because the adequacy of safeguards is influenced by the significance of the work in the context of the audit, paragraph 30 (a) and (b) prohibits the use of internal auditors to provide direct assistance in relation to performing procedures that involve making significant judgements in the audit or that relate to higher assessed risks of material misstatement where the judgement required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited. This would also be the case where the work involved creates a self-review threat, which is why internal auditors are prohibited from performing procedures in the circumstances described in paragraph 30 (c) and (d).
- A34. In evaluating the level of competence of an internal auditor, many of the factors in paragraph A8 of this ISA (NZ) may also be relevant, applied in the context of individual internal auditors and the work to which they may be assigned.

²⁶ ISA (NZ) 600 (Revised) *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 25(a)

²⁷ See paragraph A7

ISA (NZ) 610 (Revised 2013)*Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance (Ref: Para. 29–31)*

A35. Paragraphs A15-A22 of this ISA (NZ) provide relevant guidance in determining the nature and extent of work that may be assigned to internal auditors.

A36. In determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned. Examples of activities and tasks that would not be appropriate to use internal auditors to provide direct assistance include the following:

- Discussion of fraud risks. However, the external auditors may make enquiries of internal auditors about fraud risks in the organisation in accordance with ISA (NZ) 315 (Revised 2019).²⁸
- Determination of unannounced audit procedures as addressed in ISA (NZ) 240.

A37. Similarly, since in accordance with ISA (NZ) 505²⁹ the external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditors. However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.

A38. The amount of judgement involved and the risk of material misstatement are also relevant in determining the work that may be assigned to internal auditors providing direct assistance. For example, in circumstances where the valuation of accounts receivable is assessed as an area of higher risk, the external auditor could assign the checking of the accuracy of the aging to an internal auditor providing direct assistance. However, because the evaluation of the adequacy of the provision based on the aging would involve more than limited judgement, it would not be appropriate to assign that latter procedure to an internal auditor providing direct assistance.

A39. Notwithstanding the direction, supervision and review by the external auditor, excessive use of internal auditors to provide direct assistance may affect perceptions regarding the independence of the external audit engagement.

Using Internal Auditors to Provide Direct Assistance (Ref: Para. 34)

A40. As individuals in the internal audit function are not independent of the entity as is required of the external auditor when expressing an opinion on financial statements, the external auditor's direction, supervision and review of the work performed by internal auditors providing direct assistance will generally be of a different nature and more extensive than if members of the engagement team perform the work.

A41. In directing the internal auditors, the external auditor may for example, remind the internal auditors to bring accounting and auditing issues identified during the audit to the attention of the external auditor. In reviewing the work performed by the internal auditors, the external auditor's considerations include whether the evidence obtained is sufficient and appropriate in the circumstances, and that it supports the conclusions reached.

²⁸ ISA (NZ) 315 (Revised 2019), paragraph 14(a)

²⁹ ISA (NZ) 505, *External Confirmations*, paragraphs 7 and 16

ISA (NZ) 610 (Revised 2013)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 610 (Revised 2013).

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms with International Standard on Auditing 610 (Revised 2013) *Using the Work of Internal Auditors*, issued by the International Auditing and Assurance Standards Board (~~IAASB~~), ~~an independent standard-setting board of the International Federation of Accountants (IFAC)~~.

Paragraphs Requirements and application material that ~~has~~ have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 610 (Revised 2013)

ISA (NZ) 610 (Revised 2013)

Minimum Legislative Information

(This information is not part of the standard)

This standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 610 (Revised 2013) <i>Using the Work of Internal Auditors</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This standard was made under section 12 (b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>

ISA (NZ) 700 (Revised)Issued 10/1510/25Compiled 10/24

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 700 (REVISED)**Forming an Opinion and Reporting on Financial Statements ~~(ISA (NZ) 700 (Revised))~~**

~~This Standard was issued on 1 October 2015 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 28 October 2015.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods ending on or after 15 December 2016. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 700 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 700 *Forming an Opinion and Reporting on Financial Statements*.~~

~~This compilation was prepared in October 2024 and incorporates amendments up to and including November 2023.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 700 (Revised) issued by the External Reporting Board in October 2015

ISA (NZ) 700 (Revised)**COPYRIGHT**

© External Reporting Board (“XRB”) 2015

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927292-83-9

ISA (NZ) 700 (Revised)**Explanatory note**

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 700 (Revised) issued by the External Reporting Board in October 2015 (as amended to November 2023).

The revision of ISA (NZ) 700 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 700 (Revised)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 700 (REVISED)

FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	
<u>0.1 – 0.2</u>	
Introduction	
Scope of this ISA (NZ)	1-NZ4.1
Effective Date	5–NZ5.21
Objectives	6
Definitions	7–NZ9.1
Requirements	
Forming an Opinion on the Financial Statements	10-15
Form of Opinion	16-19
Auditor’s Report	20-52
Supplementary Information Presented with the Financial Statements	53-54
Application and Other Explanatory Material	
Qualitative Aspects of the Entity’s Accounting Practices	A1–A3
Accounting Policies Appropriately Disclosed in the Financial Statements.....	A4
Information Presented in the Financial Statements is Relevant, Reliable, Comparable and Understandable	A5
Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements	A6
Evaluating Whether the Financial Statements Achieve Fair Presentation.....	A7–A9
Description of the Applicable Financial Reporting Framework	A10–A15
Form of Opinion	A16–A17
Auditor’s Report	A18–A778
Supplementary Information Presented with the Financial Statements	A789–A845
Appendix: Illustrations of Independent Auditor’s Reports on Financial Statements	
[NZ] Appendix 2: Existence of any Other Relationship of the Auditor with the Entity	
<u>Accompanying Attachment: Conformity to the International Standards on Auditing</u>	

ISA (NZ) 700 (Revised)

International Standard on Auditing (New Zealand) (ISA (NZ)) 700 (Revised), [“Forming an Opinion and Reporting on Financial Statements”](#), should be read in conjunction with ISA (NZ) 200, [“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing \(New Zealand\)”](#).

ISA (NZ) 700 (Revised)

History of Amendments

Table of pronouncements – ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*

This table lists the pronouncements establishing and amending ISA (NZ) 700 (Revised).

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 700 (Revised)	~~October 2025~~ September 2015	~~Periods beginning on or after 15 December 2026, refer commencement and application section.~~ Effective for audits of historical financial statements for periods ending on or after 15 December 2016, except for the New Zealand transitional provisions that apply to FMC reporting entities considered to have a higher level of public accountability, other than listed issuers that only requires the reporting of key audit matters for such entities for periods ending on or after 31 December 2018.
~~International Standard on Auditing (New Zealand) 800 (Revised)~~	~~September 2016~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Amendments to Standards Issued by the NZAuASB: Annual Improvements 2016~~	~~October 2016~~	~~Effective 15 December 2016.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates)~~	~~October 2018~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2018.~~
~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1~~	~~June 2020~~	~~Effective on 15 July 2020.~~
~~Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021.~~
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~	~~July 2021~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~

ISA (NZ) 700 (Revised)

Pronouncements	Date approved	<u>Application</u> ~~Effective date~~
Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)	June 2022	Effective for audits of group financial statements for periods beginning on or after 15 December 2023.
Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards	May 2023	Mandatory date of 1 January 2023.
NZ AS 1 (Revised) <i>The Audit of Service Performance Information</i>	July 2023	Mandatory date of 1 January 2024.
Narrow Scope Amendments to ISAs (NZ) due to Public Interest Entity Revisions	November 2023	Mandatory date of 15 December 2024.

Table of Amended Paragraphs in ISA (NZ) 700 (Revised)		
Paragraph affected	How affected	By...[date]
NZ46.1, NZA61.1, NZA62.1	Amended	International Standard on Auditing (New Zealand) 800 (Revised) [Sept 2016]
Illustrative reports	Amended	Amendments to Standards Issued by the NZAuASB: Annual Improvements 2016 [Oct 2016]
13	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates) [Oct 2018]
28(c), NZ28(c), NZ40(b)(1), NZ50(c)(1), A34, A39, Appendix	Amended	Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]
NZA47.1, A53 Footnotes 27, 35, 41	Amended	Conforming and Consequential Amendments to International Standards (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [Feb 2020]
A36, NZ A61.1	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]
39(c)(i),(ii), Footnotes 17, 18, 30, 31 A38, A39, Appendix [NZ] Illustration 1,2, 3,4	Amended, Inserted	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]

ISA (NZ) 700 (Revised)

Table of Amended Paragraphs in ISA (NZ) 700 (Revised)		
Illustrative reports	Amended	Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards [May 2023]
NZA 28.1, Illustrative reports	Amended	NZ AS 1 (Revised) <i>The Audit of Service Performance Information</i> [July 2023]
28, 50, Illustrative reports	Amended	Narrow Scope Amendments to ISAs (NZ) due to Public Interest Entity Revisions [November 2023]
A35A	Added	

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 700 (Revised)

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.
 2. ISA (NZ) 701² deals with the auditor's responsibility to communicate key audit matters in the auditor's report. ISA (NZ) 705³ (Revised) and ISA (NZ) 706⁴ (Revised) deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. Other ISAs (NZ) also contain reporting requirements that are applicable when issuing an auditor's report.
 3. This ISA (NZ) applies to an audit of a complete set of general purpose financial statements and is written in that context. ISA (NZ) 800 (Revised)⁵ deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA (NZ) 805 (Revised)⁶ deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement. This ISA (NZ) also applies to audits for which ISA (NZ) 800 (Revised) or ISA (NZ) 805 (Revised) apply.
 4. The requirements of this ISA (NZ) are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This ISA (NZ) promotes consistency in the auditor's report, but recognises the need for flexibility to accommodate particular circumstances applicable in New Zealand. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs (NZ), promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.
- NZ4.1 In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these ~~eases~~cases, the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this ~~standard~~standard, the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.

² ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

³ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁴ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

⁵ ISA (NZ) 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

⁶ ISA (NZ) 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

ISA (NZ) 700 (Revised)

Effective Date

5. ~~This ISA (NZ) is effective for audits of financial statements for periods ending on or after 15 December 2016. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ5.1 This ~~ISA (NZ) Standard~~ **supersedes-repeals** ISA (NZ) 700 ~~(Revised)~~, *Forming an Opinion and Reporting on Financial Statements* issued in October 2015.

Transitional provisions

~~NZ5.2 Paragraph 30 of this ISA (NZ) requires that for audits of complete sets of general purpose financial statements of a FMC reporting entity considered to have a higher level of public accountability, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA (NZ) 701. The requirement to report key audit matters is subject to the following transitional provisions:~~

- ~~• For the audits of complete sets of general purpose financial statements of listed issuers, the auditor shall communicate key audit matters in the auditor's report for periods ending on or after 15 December 2016. For the purposes of this transitional provision, a listed issuer is defined as a person that is party to a listing agreement with a licensed market operator in relation to a licensed market (and includes a licensed market operator that has financial products quoted on its own licensed market) (as defined in the Financial Markets Conduct Act 2013 section 6(1)).~~
- ~~• For the audits of complete sets of general purpose financial statements of a FMC reporting entity considered to have a higher level of public accountability other than listed issuers, the auditor shall communicate key audit matters in the auditor's report for periods ending on or after 31 December 2018.~~

Objectives

6. The objectives of the auditor are:
- (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
 - (b) To express clearly that opinion through a written report.

Definitions

7. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
- (a) General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.
 - (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

ISA (NZ) 700 (Revised)

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.⁷

- (c) Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.⁸
8. Reference to “financial statements” in this ISA (NZ) means “a complete set of general purpose financial statements.”⁹ The requirements of the applicable financial reporting framework determine the presentation, structure and content of the financial statements, and what constitutes a complete set of financial statements.
 9. Reference to “~~International Financial Reporting Standards~~ IFRS Accounting Standards” in this ISA (NZ) means the International Financial Reporting Standards–IFRS Accounting Standards (IFRSs) issued by the International Accounting Standards Board, and reference to “International Public Sector Accounting Standards” means the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board.
- NZ9.1 Reference to “New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards (NZ IFRS)” or other applicable financial reporting requirements in this ISA (NZ) means the New Zealand equivalents to International Financial Reporting Standards–IFRS Accounting Standards or other financial reporting requirements issued by the New Zealand Accounting Standards Board.

Requirements

Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.^{10,11}
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free

⁷ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 1~~53~~(a)

⁸ Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

⁹ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 1~~35~~(f) sets out the content of financial statements.

¹⁰ ISA (NZ) 200, paragraph 1~~34~~

¹¹ Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

ISA (NZ) 700 (Revised)

from material misstatement, whether due to fraud or error. That conclusion shall take into account:

- (a) The auditor's conclusion, in accordance with ISA (NZ) 330, whether sufficient appropriate audit evidence has been obtained;¹²
 - (b) The auditor's conclusion, in accordance with ISA (NZ) 450, whether uncorrected misstatements are material, individually or in aggregate;¹³ and
 - (c) The evaluations required by paragraphs 12–15.
12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements. (Ref: Para. A1–A3)
13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
- (a) The financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner; (Ref: Para. A4);
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates and related disclosures made by management are reasonable;
 - (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:
 - The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterised.
 - The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. (Ref: Para. A5)
 - (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A6)
 - (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.
14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the

¹² ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, paragraph 26

¹³ ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

ISA (NZ) 700 (Revised)

financial statements achieve fair presentation shall include consideration of: (Ref: Para A7–A9)

- (a) The overall presentation, structure and content of the financial statements; and
- (b) Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A10–A15)

Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

17. If the auditor:

- (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,

the auditor shall modify the opinion in the auditor's report in accordance with ISA (NZ) 705 (Revised).

18. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with ISA (NZ) 705 (Revised). (Ref: Para. A16)
19. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A17)

Auditor's Report

20. The auditor's report shall be in writing. (Ref: Para. A18–A19)

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing (New Zealand)

Title

21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A20)

ISA (NZ) 700 (Revised)**Addressee**

22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. (Ref: Para. A21)

Auditor's Opinion

23. The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."
 24. The Opinion section of the auditor's report shall also:
 - (a) Identify the entity whose financial statements have been audited;
 - (b) State that the financial statements have been audited;
 - (c) Identify the title of each statement comprising the financial statements;
 - (d) Refer to the notes, including the summary of significant accounting policies; and
 - (e) Specify the date of, or period covered by, each financial statement comprising the financial statements. (Ref: Para. A22–A23)
 25. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
 - (a) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework]; or
 - (b) In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]. (Ref: Para. A24–A31)
 26. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A26–A31)
 27. If the reference to the applicable financial reporting framework in the auditor's opinion is not to [IFRSs](#) [IFRS Accounting Standards](#) issued by the International Accounting Standards Board or IPSASs issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework.
- NZ27.1 For an entity in New Zealand, that is required to apply the New Zealand Accounting Standards Framework, the reference to the applicable financial reporting framework in the auditor's opinion should be to the applicable financial reporting requirements issued by the New Zealand Accounting Standards Board that apply to the tier under which the entity is reporting. (Ref: Para. NZA28.1)

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)
 - (a) States that the audit was conducted in accordance with International Standards on Auditing (New Zealand); (Ref: Para. A33)

ISA (NZ) 700 (Revised)

- (b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs (NZ);
- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
 - (i) The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and (Ref: Para. A34–A35, A367–A378)
 - (ii) If the relevant ethical requirements require¹⁴ the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities, the statement shall indicate that the auditor is independent in accordance with the independence requirements applicable to the audits of those entities; and (Ref: Para. A365A)

NZ28(c) In New Zealand, the statement required by paragraph 28(c) shall refer to Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board.

- (d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

NZ28.1 The auditor's report shall include a statement 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. [NZ] Appendix 2 provides an example of the wording that may be used in the audit of financial statements to identify relationships with, or interest in, the entity.

Going Concern

- 29. ~~Where applicable, the~~ The auditor shall report in accordance with ISA (NZ) 570-~~(Revised)~~.¹⁵

Key Audit Matters

- 30. [Amended by the NZAuASB].

NZ30.1 For audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA (NZ) 701.

- 31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ISA (NZ) 701. (Ref: Para. A410–NZA4344.1)

Other Information

- 32. Where applicable, the auditor shall report in accordance with ISA (NZ) 720 (Revised).¹⁶

¹⁴ Professional and Ethical Standard 1, R400.25-R400.26

¹⁵ ISA (NZ) 570-~~(Revised)~~, *Going Concern*, paragraphs 21–2334-38

¹⁶ ISA (NZ) 720 (Revised), *The Auditor's Responsibility Relating to Other Information*

ISA (NZ) 700 (Revised)

Responsibilities for the Financial Statements

33. [Amended by the NZAuASB].

NZ33.1 The auditor's report shall include a section with a heading "Responsibilities of Those Charged with Governance for the Financial Statements." The auditor's report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In New Zealand, the appropriate reference is usually to those charged with governance. In some jurisdictions, the appropriate reference may be to management. (Ref: Para. A44~~5~~)

34. [Amended by the NZAuASB].

NZ34.1 This section of the auditor's report shall describe the responsibilities of those charged with governance for: (Ref: Para. A4~~56~~—A4~~98~~)

- (a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (b) Assessing the entity's ability to continue as a going concern¹⁷ and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of the responsibilities of those charged with governance for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate. (Ref: Para. A4~~89~~)

35. This section of the auditor's report shall also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfil the responsibilities described in paragraph 34 above. In this case, the heading of this section shall also refer to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework. (Ref: Para. A4~~95~~0)

36. When the financial statements are prepared in accordance with a fair presentation framework, the description of responsibilities for the financial statements in the auditor's report shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view," as appropriate in the circumstances.

Auditor's Responsibilities for the Audit of the Financial Statements

37. The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

38. This section of the auditor's report shall: (Ref: Para. A50~~1~~)

- (a) State that the objectives of the auditor are to:
 - (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
 - (ii) Issue an auditor's report that includes the auditor's opinion. (Ref: Para. A52~~1~~)

¹⁷ ISA (NZ) 570 (Revised), paragraph 2

ISA (NZ) 700 (Revised)

- (b) State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists; and
 - (c) State that misstatements can arise from fraud or error, and either:
 - (i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements; or¹⁸
 - (ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework. (Ref: Para. A524)
39. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A501)
- (a) State that, as part of an audit in accordance with ISAs (NZ), the auditor exercises professional judgement and maintains professional scepticism throughout the audit; and
 - (b) Describe an audit by stating that the auditor's responsibilities are:
 - (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - (ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
 - (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - (iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of

¹⁸ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 2

ISA (NZ) 700 (Revised)

the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.

- (v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 - (c) When ISA (NZ) 600 (Revised)¹⁹ applies, further describe the auditor's responsibilities in a group audit engagement by stating that:
 - (i) The auditor's responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements;
 - (ii) The auditor is responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit; and
 - (iii) The auditor remains solely responsible for the auditor's opinion.²⁰
40. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: (Ref: Para. A501)
- (a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings that the auditor identifies during the audit, including any:
 - (i) ~~S~~significant deficiencies in internal control ~~that the auditor identifies during the audit~~;
 - (ii) Identified fraud or suspected fraud;²¹ and
 - (i) ~~Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance;²²~~
 - (ii)(iii) ~~[Amended by the NZAuASB].~~
 - (b) ~~NZ40(b)(1)~~ For audits of FMC reporting entities considered to have a higher level of public accountability, sState that the auditor provides those charged with governance with a statement that the auditor has:
 - (i) ~~e~~Complied with relevant ethical requirements regarding independence; and
 - (ii) ~~[Amended by the NZAuASB]~~

NZ40(b)(ii).1 ~~For audits of FMC reporting entities considered to have a higher level of public accountability,~~ communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied; and

¹⁹ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

²⁰ ISA (NZ) 600 (Revised), paragraph ~~53~~54

²¹ ~~ISA (NZ) 240 (NZ)~~, paragraph 65

²² ~~ISA (NZ) 240~~, paragraph 66

ISA (NZ) 700 (Revised)

~~(b)~~(c) [Amended by the NZAuASB].

NZ40(c)(1) For audits of financial statements of FMC reporting entities considered to have a higher level of public accountability and any other entities for which key audit matters are communicated in accordance with ISA (NZ) 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A534)

Location of the description of the auditor's responsibilities for the audit of the financial statements

41. The description of the auditor's responsibilities for the audit of the financial statements required by paragraphs 38–39 shall be included: (Ref: Para. A545)
 - (a) Within the body of the auditor's report;
 - (b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or (Ref: Para. A546–NZA558.1)
 - (c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or ISAs (NZ) expressly permit the auditor to do so. (Ref: Para. A54A55, A567–NZA58.17)
42. When the auditor refers to a description of the auditor's responsibilities on a website of an appropriate authority, the auditor shall determine that such description addresses, and is not inconsistent with, the requirements in paragraphs 3839–4039 of this ISA (NZ). (Ref: Para. A567)

Other Reporting Responsibilities

43. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the ISAs (NZ), these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs (NZ) in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the ISAs (NZ). (Ref: Para. A58A59–A60A61)
44. If other reporting responsibilities are presented in the same section as the related report elements required by the ISAs (NZ), the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the ISAs (NZ). (Ref: Para. A610)
45. If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs 2021–3940 of this ISA (NZ) shall be included under a section with a heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the Financial Statements." (Ref: Para. A60A61)

ISA (NZ) 700 (Revised)

Name of the Engagement Partner

46. [Amended by the NZAuASB].

NZ46.1 The name of the engagement partner shall be included in the auditor's report on financial statements of FMC reporting entities considered to have a higher level of public accountability unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. ~~A61A62–A63A64~~)

Signature of the Auditor

47. The auditor's report shall be signed. (Ref: Para. ~~A64A65–A65A66~~)

Auditor's Address

48. The auditor's report shall name the location in the jurisdiction where the auditor practices.

Date of the Auditor's Report

49. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: Para. ~~A66A67–A69A70~~)

- (a) All the statements and disclosures that comprise the financial statements have been prepared; and
- (b) Those with the recognised authority have asserted that they have taken responsibility for those financial statements.

Auditor's Report Prescribed by Law or Regulation

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing (New Zealand) only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. ~~A701–A71A72~~)

- (a) A title.
- (b) An addressee, as required by the circumstances of the engagement.
- (c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not ~~International Financial Reporting Standards–IFRS Accounting Standards~~ or International Public Sector Accounting Standards, see paragraph ~~2627~~).

NZ50(c)(1) The opinion paragraph shall identify the applicable financial reporting requirements issued by the New Zealand Accounting Standards Board used to prepare the financial statements.

- (d) An identification of the entity's financial statements that have been audited.

ISA (NZ) 700 (Revised)

- (e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
 - (i) The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.
 - (ii) If the relevant ethical requirements require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities, the statement shall indicate that the auditor is independent of the entity in accordance with the independence requirements applicable to the audits of those entities.
- NZ50(e)(1) In New Zealand, the independence statement shall refer to Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board.
- (f) ~~Where applicable, a~~ A section that addresses, and is not inconsistent with, the reporting requirements in paragraph ~~2234–35 and 36 (c-)~~ of ISA (NZ) 570 ~~(Revised)~~.
 - (g) Where applicable, a Basis for Qualified ~~(or Adverse)~~ Opinion section that addresses, and is not inconsistent with, the reporting requirements in paragraph ~~2335(b)~~ of ISA (NZ) 570 ~~(Revised)~~.
 - (h) Where applicable, a section that includes the information required by ISA (NZ) 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that ISA (NZ).²³ (Ref: Para. A7~~23~~–A7~~36~~)
 - (i) Where applicable, a section that addresses the reporting requirements in paragraph 24 of ISA (NZ) 720 (Revised)²⁴.
 - (j) [Amended by the NZAuASB].
- NZ50(j)(1) A description of the responsibilities of those charged with governance for the preparation of the financial statements that addresses, and is not inconsistent with, the requirements in paragraphs 33–36.
- (k) A reference to International Standards on Auditing (New Zealand) and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements in paragraphs 37–40. (Ref: Para. A~~50~~A51–A~~53~~A54)
 - (l) [Amended by the NZAuASB].
- NZ50(l)(1) For audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.
- (m) The auditor's signature.
 - (n) The auditor's address.

²³ ISA (NZ) 701, paragraphs 11–16

²⁴ ISA (NZ) 720 (Revised), paragraph 24.

ISA (NZ) 700 (Revised)

- (o) The date of the auditor's report.

Auditor's Report for Audits Conducted in Accordance with Both New Zealand Auditing Standards and International Standards on Auditing

51. [Amended by the NZAuASB].

NZ51.1 An auditor is required to conduct an audit in accordance with the ISAs (NZ). Compliance with the ISAs (NZ) will also mean the auditor has complied with the International Standards on Auditing (ISAs) in the conduct of the audit. In this case, the auditor's report may refer to International Standards on Auditing in addition to the International Standards on Auditing (New Zealand).

52. When the auditor's report refers to both the national auditing standards and International Standards on Auditing, the auditor's report shall identify the jurisdiction of origin of the national auditing standards.

Supplementary Information Presented with the Financial Statements (Ref: Para. A789–A845)

53. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgement, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

54. If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

Application and Other Explanatory Material

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

A1. Management makes a number of judgements about the amounts and disclosures in the financial statements.

A2. ISA (NZ) 260 (Revised) contains a discussion of the qualitative aspects of accounting practices.²⁵ In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgements. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially

²⁵ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, Appendix 2

ISA (NZ) 700 (Revised)

misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:

- The selective correction of misstatements brought to management's attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
- Possible management bias in the making of accounting estimates.

A3. ISA (NZ) 540 addresses possible management bias in making accounting estimates.²⁶ Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

Accounting Policies Appropriately Disclosed in the Financial Statements (Ref: Para. 13(a))

A4. In evaluating whether the financial statements appropriately disclose the significant accounting policies selected and applied, the auditor's consideration includes matters such as:

- Whether all disclosures related to the significant accounting policies that are required to be included by the applicable financial reporting framework have been disclosed;
- Whether the information about the significant accounting policies that has been disclosed is relevant and therefore reflects how the recognition, measurement and presentation criteria in the applicable financial reporting framework have been applied to classes of transactions, account balances and disclosures in the financial statements in the particular circumstances of the entity's operations and its environment; and
- The clarity with which the significant accounting policies have been presented.

Information Presented in the Financial Statements Is Relevant, Reliable, Comparable and Understandable (Ref: Para. 13(d))

A5. Evaluating the understandability of the financial statements includes consideration of such matters as whether:

- The information in the financial statements is presented in a clear and concise manner.
- The placement of significant disclosures gives appropriate prominence to them (e.g., when there is perceived value of entity-specific information to users), and whether the disclosures are appropriately cross-referenced in a manner that would not give rise to significant challenges for users in identifying necessary information.

²⁶ ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*, paragraph 32

ISA (NZ) 700 (Revised)

Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: Para. 13(e))

A6. It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, financial performance and cash flows. Evaluating whether, in view of the applicable financial reporting framework, the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows includes consideration of such matters as:

- The extent to which the information in the financial statements is relevant and specific to the circumstances of the entity; and
- Whether the disclosures are adequate to assist the intended users to understand:
 - The nature and extent of the entity's potential assets and liabilities arising from transactions or events that do not meet the criteria for recognition (or the criteria for derecognition) established by the applicable financial reporting framework.
 - The nature and extent of risks of material misstatement arising from transactions and events.
 - The methods used and the assumptions and judgements made, and changes to them, that affect amounts presented or otherwise disclosed, including relevant sensitivity analyses.

Evaluating Whether the Financial Statements Achieve Fair Presentation (Ref: Para. 14)

- A7. Some financial reporting frameworks acknowledge explicitly or implicitly the concept of fair presentation.²⁷ As noted in paragraph 7(b) of this ISA (NZ), a fair presentation²⁸ financial reporting framework not only requires compliance with the requirements of the framework, but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.²⁹
- A8. The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and disclosure, is a matter of professional judgement. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the auditor's understanding of the entity and the audit evidence obtained during the audit. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial statements as a whole), such as the effect of evolving financial reporting requirements or the changing economic environment.

²⁷ For example, New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS) note that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.

²⁸ See ISA (NZ) 200, paragraph 135(a)

²⁹ For example, NZ IFRS require an entity to provide additional disclosures when compliance with the specific requirements in NZ IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (New Zealand equivalents to International Accounting Standard [8 Basis of Preparation of Financial Statements, paragraph 6C \(c\)1, Presentation of Financial Statements, paragraph 17\(e\)](#)).

ISA (NZ) 700 (Revised)

- A9. Evaluating whether the financial statements achieve fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:
- The degree to which the amounts in the financial statements are aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
 - Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

Description of the Applicable Financial Reporting Framework (Ref: Para. 15)

- A10. As explained in ISA (NZ) 200, the preparation of the financial statements by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.³⁰ That description advises users of the financial statements of the framework on which the financial statements are based.
- A11. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
- A12. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (e.g., “the financial statements are in substantial compliance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#)”) is not an adequate description of that framework as it may mislead users of the financial statements.

Reference to More than One Financial Reporting Framework

- A13. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (e.g., NZ IFRS and ~~IFRSs~~ [IFRS Accounting Standards](#)). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless New Zealand has adopted the other framework as its own framework, or has eliminated all barriers to compliance with it.
- A14. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.

³⁰ ISA (NZ) 200, paragraphs A2–A3

ISA (NZ) 700 (Revised)

A15. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (e.g., financial statements prepared in accordance with NZ IFRS that also describe the extent to which they comply with [IFRSs IFRS Accounting Standards](#)). Such description may constitute supplementary financial information as discussed in paragraph 54 and is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements.

Form of Opinion ~~(Ref: Para. 18–19)~~

A16. There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements. [\(Ref: Para. 18\)](#)

A17. It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with ISA (NZ) 210, the auditor determined that the framework is acceptable.³¹ [\(Ref: Para. 19\)](#)

Auditor's Report (Ref: Para. 20)

A18. A written report encompasses reports issued in hard copy and those using an electronic medium.

A19. The Appendix to this ISA (NZ) contains illustrations of auditor's reports on financial statements, incorporating the elements set out in paragraphs 20–49. With the exception of the Opinion and Basis for Opinion sections, this ISA (NZ) does not establish requirements for ordering the elements of the auditor's report. However, this ISA (NZ) requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with ISAs (NZ) more recognisable, particularly in situations where the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in the Appendix to this ISA (NZ).

*Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing (New Zealand)***Title** (Ref: Para. 21)

A20. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.

Addressee (Ref: Para. 22)

A21. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

³¹ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

ISA (NZ) 700 (Revised)

Auditor's Opinion (Ref. Para. 24–26)

Reference to the financial statements that have been audited

- A22. The auditor's report states, for example, that the auditor has audited the financial statements of the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement] and notes to the financial statements, including a summary of significant accounting policies.
- A23. When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users to identify the financial statements to which the auditor's report relates.

“Present fairly, in all material respects” or “give a true and fair view”

- A24. The phrases “present fairly, in all material respects,” and “give a true and fair view” are regarded as being equivalent. Whether the phrase “present fairly, in all material respects,” or the phrase “give a true and fair view” is used is determined by the law or regulation governing the audit of financial statements, or by generally accepted practice. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 14 of this ISA (NZ) for the auditor to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.
- A25. When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as “with the foregoing explanation” or “subject to” in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of opinion.

Description of the financial statements and the matters they present

- A26. The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements may include: a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, and related notes, which ordinarily comprise a summary of significant accounting policies and other explanatory information. In some cases, additional information may also be considered to be an integral part of the financial statements.
- A27. In the case of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion states that the financial statements present fairly, in all material respects, or give a true and fair view of, the matters that the financial statements are designed to present. For example, in the case of financial statements prepared in accordance with NZ IFRS, these matters are *the financial position of the entity as at the end of the period and the entity's financial performance and cash flows for the period then ended*. Consequently, the [...] in paragraph 25 and elsewhere in this ISA (NZ) is intended to be replaced by the words in italics in the preceding sentence when the applicable financial reporting framework is NZ IFRS or, in the case of other applicable financial reporting frameworks, be replaced with words that describe the matters that the financial statements are designed to present.

ISA (NZ) 700 (Revised)

Description of the applicable financial reporting framework and how it may affect the auditor's opinion

A28. The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph 14. The applicable financial reporting framework is identified in such terms as:

"... in accordance with ~~International Financial Reporting Standards~~ IFRS Accounting Standards" or

"... in accordance with accounting principles generally accepted in Jurisdiction X ..."

NZA28.1 Examples of applicable financial reporting requirements in New Zealand (and which are issued by the New Zealand Accounting Standards Board) are the following:

"... in accordance with New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards (NZ IFRS)";

"... in accordance with New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards Reduced Disclosure Regime (NZ IFRS RDR)";

"... in accordance with Public Benefit Entity Standards (PBE Standards)";

"... in accordance with Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR)";

"... in accordance with Reporting Requirements for Tier 3 Public Sector Entities (Tier 3 (PS) Standard)";

"... in accordance with Reporting Requirements for Tier 3 Not-for-Profit Entities (Tier 3 (NFP) Standard)";

"... in accordance with Reporting Requirements for Tier 4 Public Sector Entities (Tier 4 (PS) Standard)";

"... in accordance with Reporting Requirements for Tier 4 Not-for-Profit Entities (Tier 4 (NFP) Standard) ".

A29. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as "... in accordance with New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards and the requirements of Jurisdiction X Corporations Act." ISA (NZ) 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.³²

A30. As indicated in paragraph A13, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 25–27 refers to both frameworks as follows:

- (a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (e.g., NZ IFRS)

³² ISA (NZ) 210, paragraph 18

ISA (NZ) 700 (Revised)

and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (e.g., ~~IFRSs~~ [IFRS Accounting Standards](#)). These opinions may be expressed separately or in a single sentence (e.g., the financial statements are presented fairly, in all material respects [...], in accordance with NZ IFRS and with ~~IFRSs~~ [IFRS Accounting Standards](#)).

- (b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (e.g., ~~IFRSs~~ [IFRS Accounting Standards](#)) but a modified opinion given with regard to the other framework (e.g., NZ IFRS) in accordance with ISA (NZ) 705 (Revised).

A31. As indicated in paragraph A15, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. Such supplementary information is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements (see paragraphs 53–54 and related application material in paragraphs A789–A845). Accordingly,

- (a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with ISA (NZ) 705 (Revised).
- (b) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with ISA (NZ) 706 (Revised), drawing attention to the disclosure.

Basis for Opinion (Ref: Para. 28)

A32. The Basis for Opinion section provides important context about the auditor's opinion. Accordingly, this ISA (NZ) requires the Basis for Opinion section to directly follow the Opinion section in the auditor's report.

A33. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards.

Relevant ethical requirements (Ref: Para 28 (c))

A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA (NZ) 200 explains that relevant ethical requirements ordinarily comprise Professional and Ethical Standard 1.³³ When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code.

[A35.](#) In some cases, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable), or may refer to a term that is commonly understood and that appropriately summarises those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

³³ ISA (NZ) 200, paragraph A2247

ISA (NZ) 700 (Revised)

~~A35-A36.~~ Relevant ethical requirements may:

~~A35A. Relevant ethical requirements may:~~

- Establish independence requirements that are specific to audits of financial statements of certain entities specified in the relevant ethical requirements, such as the independence requirements for audits of financial statements of public interest entities in Professional and Ethical Standard 1. Relevant ethical requirements may also require or encourage the auditor to determine whether it is appropriate to apply such independence requirements to audits of financial statements of entities other than those entities specified in the relevant ethical requirements.³⁴
- Require the auditor to publicly disclose when the auditor applied independence requirements specific to audits of financial statements of certain entities. For example, Professional and Ethical Standard 1 requires that when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.³⁵

ISA (NZ) 260 (Revised) sets out requirements and guidance about the auditor's communication with those charged with governance, which includes communications for these cases.³⁶

~~A36-A37.~~ Law or regulation, or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those related to independence that applied to the audit of the financial statements.

~~A37-A38.~~ In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.

Considerations specific to group audits

~~A38-A39.~~ In group audits for which there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group auditor. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.³⁷

~~A39-A40.~~ The ISAs (NZ) do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the Professional and Ethical Standard 1³⁸ or other ethical requirements to which the group auditor is subject, nor do the ISAs (NZ) require that the component auditor in all cases to be subject to the same specific independence

³⁴ [Professional and Ethical Standard 1, paragraph 400.24 A1](#)

³⁵ Professional and Ethical Standard 1, paragraphs R400.25–R400.26

³⁶ ISA (NZ) 260 (Revised), paragraph ~~46A-17~~ and A29

³⁷ ISA (NZ) 600 (Revised), paragraphs A56–A57, A66–A68

³⁸ [Professional and Ethical Standard 1, Section 405](#)

ISA (NZ) 700 (Revised)

requirements that are applicable to the group auditor. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ISA (NZ) 600 (Revised)³⁹ provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

Key Audit Matters (Ref: Para. 301)

~~A40-A41.~~ [Amended by the NZAuASB].

NZA4140.1 This ISA requires communication of key audit matters for audits of financial statements of FMC reporting entities considered to have a higher level of public accountability. Law or regulation may also require communication of key audit matters for audits of entities other than FMC reporting entities considered to have a higher level of public accountability, for example, entities characterised in such law or regulation as public interest entities.

~~A42.~~ [Amended by the NZAuASB]

NZA42.1 The auditor may also decide to communicate key audit matters for ~~other~~ entities other than FMC reporting entities considered to have a higher level of public accountability, including those where the auditor determines that there is significant public interest in the financial condition of those entities.⁴⁰ ~~including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business.~~ Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as not for profit organisations ~~charities~~.

~~A41-A43.~~ [Amended by the NZAuASB].

NZA4342.1 ISA (NZ) 210 requires the auditor to agree the terms of the audit engagement with those charged with governance and explains that the roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance arrangements of the entity and relevant law or regulation.⁴¹ ISA (NZ) 210 also requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.⁴² When the auditor is not otherwise required to communicate key audit matters, ISA (NZ) 210⁴³ explains that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

Considerations specific to public sector entities

~~A42-A44.~~ [Amended by the NZAuASB].

³⁹ ISA (NZ) 600 (Revised), paragraphs 25, 27

⁴⁰ [ISA \(NZ\) 200, paragraph A14](#)

⁴¹ ISA (NZ) 210, paragraphs 9 and A22

⁴² ISA (NZ) 210, paragraph 10

⁴³ ISA (NZ) 210, paragraph A25

ISA (NZ) 700 (Revised)

NZA~~44~~43.1 FMC reporting entities considered to have a higher level of public accountability are not common in the public sector. However, public sector entities may be significant due to size, complexity or public interest aspects. In such cases, an auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report.

Responsibilities for the Financial Statements (Ref: Para. 33–~~NZ~~34.1)

~~A43-A45.~~ [Amended by the NZAuASB].

NZA~~45~~44.1 ISA (NZ) 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with ISAs (NZ) is conducted.⁴⁴ Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of the responsibilities of those charged with governance in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted. ISA (NZ) 260 (Revised) uses the term those charged with governance to describe the person(s) or organisation(s) with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures across jurisdictions and by entity.

~~A44-A46.~~ There may be circumstances when it is appropriate for the auditor to add to the descriptions of the responsibilities of management and those charged with governance in paragraphs 34–35 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the nature of the entity.

~~A45-A47.~~ [Amended by the NZAuASB].

NZA~~47~~46.1 ISA (NZ) 210 requires the auditor to agree the responsibilities of those charged with governance in an engagement letter or other suitable form of written agreement.⁴⁵ ISA (NZ) 210 provides some flexibility in doing so, by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgement, are equivalent in effect to those set out in ISA (NZ) 210. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. In such cases, this wording may also be used in the auditor's report to describe the responsibilities as required by paragraph 34(a) of this ISA (NZ). In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter, the wording in paragraph 34(a) of this ISA (NZ) is used. In addition to including the description of the responsibilities of those charged with governance in the auditor's report as required by paragraph 34, the auditor may refer to a more detailed description of these responsibilities

⁴⁴ ISA (NZ) 200, paragraph 1~~5~~3(j)

⁴⁵ ISA (NZ) 210, paragraph 6(b)(i)–(ii)

ISA (NZ) 700 (Revised)

by including a reference to where such information may be obtained (e.g., in the annual report of the entity or a website of an appropriate authority).

~~A46-A48.~~ [Amended by the NZAuASB].

NZA~~48~~47.1 Law or regulation prescribing the responsibilities of those charged with governance may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of an entity's system of internal control, the descriptions in ISA (NZ) 210 and in paragraph 34 do not make specific reference to them.

~~A49.~~ [Amended by the NZAuASB].

~~NZA~~49.1 The Appendix to this ISA (NZ) provides illustrations of how the requirement in paragraph 34(b) would be applied identifying the applicable financial reporting framework. If an applicable financial reporting framework other than those illustrated is used, the illustrative statements featured in the Appendix to this ISA (NZ) may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

Oversight of the financial reporting process (Ref: Para. 35)

~~A47-A50.~~ When some, but not all, of the individuals involved in the oversight of the financial reporting process are also involved in preparing the financial statements, the description as required by paragraph 35 of this ISA (NZ) may need to be modified to appropriately reflect the particular circumstances of the entity. When individuals responsible for the oversight of the financial reporting process are the same as those responsible for the preparation of the financial statements, no reference to oversight responsibilities is required.

Auditor's Responsibilities for the Audit of the Financial Statements (Ref: Para. 37–40)

~~A48-A51.~~ The description of the auditor's responsibilities as required by paragraphs 37–40 of this ISA (NZ) may be tailored to reflect the specific nature of the entity, for example, when the auditor's report addresses consolidated financial statements. Illustration 2 in the Appendix to this ISA (NZ) includes an example of how this may be done.

Objectives of the auditor (Ref: Para. 38(a))

~~A49-A52.~~ The auditor's report explains that the objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes the auditor's opinion. These are in contrast to management's responsibilities for the preparation for the financial statements.

Description of materiality (Ref: Para. 38(c))

~~A50-A53.~~ The Appendix to this ISA (NZ) provides illustrations of how the requirement in paragraph 38(c), to provide a description of materiality, would be applied identifying the applicable financial reporting framework. If an applicable financial reporting framework other than NZ IFRS is used, the illustrative statements presented in the Appendix to this ISA (NZ) may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

ISA (NZ) 700 (Revised)

Auditor's responsibilities relating to ISA (NZ) 701 (Ref: Para. ~~NZ400~~(c)(1))

~~A51-A54.~~ The auditor may also consider it useful to provide additional information in the description of the auditor's responsibilities beyond what is required by paragraph ~~NZ40(c)(1)~~. For example, the auditor may make reference to the requirement in paragraph 9 of ISA (NZ) 701 to determine the matters that required significant auditor attention in performing the audit, taking into account areas of higher assessed risk of material misstatement or significant risks identified in accordance with ISA (NZ) 315 (Revised 2019); significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty; and the effects on the audit of significant events or transactions that occurred during the period.

Location of the description of the auditor's responsibilities for the audit of the financial statements (Ref: Para. 41, 50(k))

~~A52-A55.~~ Including the information required by paragraphs 39–40 of this ISA (NZ) in an appendix to the auditor's report or, when law, regulation or ISAs (NZ) expressly permit, referring to a website of an appropriate authority containing such information may be a useful way of streamlining the content of the auditor's report. However, because the description of the auditor's responsibilities contains information that is necessary to inform users' expectations of an audit conducted in accordance with ISAs (NZ), a reference is required to be included in the auditor's report indicating where such information can be accessed.

Location in an appendix (Ref: Para. 41(b), 50(k))

~~A53-A56.~~ Paragraph 41 permits the auditor to include the statements required by paragraphs 39–40 describing the auditor's responsibilities for the audit of the financial statements in an appendix to the auditor's report, provided that appropriate reference is made within the body of the auditor's report to the location of the appendix. The following is an illustration of how such a reference to an appendix could be made in the auditor's report:

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at [*indicate page number or other specific reference to the location of the description*], forms part of our auditor's report.

Reference to a website of an appropriate authority (Ref: Para. 41(c), 42)

ISA (NZ) 700 (Revised)

A54-A57. Paragraph 41 explains that the auditor may refer to a description of the auditor's responsibilities located on a website of an appropriate authority, only if expressly permitted by law, regulation or ISAs (NZ). The information on the website that is incorporated in the auditor's report by way of a specific reference to the website location where such information can be found may describe the auditor's work, or the audit in accordance with ISAs (NZ) more broadly, but it cannot be inconsistent with the description required in paragraphs 39–40 of this ISA (NZ). This means that the wording of the description of the auditor's responsibilities on the website may be more detailed, or may address other matters relating to an audit of financial statements, provided that such wording reflects and does not contradict the matters addressed in paragraphs 39–40.

A55-A58. An appropriate authority could be the External Reporting Board, a regulator, or an audit oversight body. Such organisations are well-placed to ensure the accuracy, completeness and continued availability of the standardised information. It would not be appropriate for the auditor to maintain such a website. The following is an illustration of how such a reference to a website could be made in the auditor's report:

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at [Organisation's] website at: [website address]. This description forms part of our auditor's report.

NZ-A5857.1 When the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Description_Auditors_responsibilities.aspx⁴⁶.

Other Reporting Responsibilities (Ref: Para. 43–45)

A56-A59. In some engagements, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibilities under the ISAs (NZ). For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records, internal control over financial reporting or other information. Auditing standards

⁴⁶ The auditor's report should refer to the specific webpage that applies to the auditor's responsibilities applicable in the context of the engagement.

ISA (NZ) 700 (Revised)

often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities.

~~A57-A60.~~ In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities as part of their auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.

~~A58-A61.~~ Paragraphs 43–45 of this ISA (NZ) permit combined presentation of other reporting responsibilities and the auditor's responsibilities under the ISAs (NZ) only when they address the same topics and the wording of the auditor's report clearly differentiates the other reporting responsibilities from those under the ISAs (NZ). Such clear differentiation may make it necessary for the auditor's report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under the ISAs (NZ). Otherwise, other reporting responsibilities are required to be addressed in a separate section in the auditor's report with a heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. In such cases, paragraph 45 requires the auditor to include reporting responsibilities under the ISAs (NZ) under a heading titled "Report on the Audit of the Financial Statements."

Name of the Engagement Partner (Ref: Para. 46)

~~A59-A62.~~ [Amended by the NZAuASB].

NZA~~626~~.1 The objective of the firm in Professional and Ethical Standard 3⁴⁷ is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that :

- The firm and its personnel ~~fulfill~~fulfil their responsibilities in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Notwithstanding the objective of Professional and Ethical Standard 3, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on the financial statements of a FMC reporting entity considered to have a higher level of public accountability.

~~A60-A63.~~ [Amended by the NZAuASB].

NZA~~636~~.1 Law, regulation or ISAs (NZ) may require that the auditors' report include the name of the engagement partner responsible for audits other than those of financial statements of FMC reporting entities considered to have a higher level of public accountability. The auditor may be required by law or regulation, or may decide to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to where the auditor practices.

⁴⁷ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 14

ISA (NZ) 700 (Revised)

~~A61-A64.~~ In rare circumstances, the auditor may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement partner is made public, may result in physical harm to the engagement partner, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law or regulation may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement partner may be omitted.

Signature of the Auditor (Ref: Para. 47)

~~A62-A65.~~ The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate. In addition to the auditor's signature, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognised by the appropriate licensing authority.

~~A63-A66.~~ In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.

Date of the Auditor's Report (Ref: Para. 49)

~~A64-A67.~~ The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in ISA (NZ) 560.⁴⁸

~~A65-A68.~~ Since the auditor's opinion is provided on the financial statements and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements and disclosures that comprise the financial statements have been prepared and management has accepted responsibility for them.

~~A66-A69.~~ For some engagements, law or regulation identifies the individuals or bodies (e.g., the directors) that are responsible for concluding that all the statements and disclosures that comprise the financial statements have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. For other engagements, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalising its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation identifies the point in the financial statement reporting process at which the audit is expected to be complete.

~~A67-A70.~~ For some engagements, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. For these engagements, final approval by shareholders is not necessary for the auditor to conclude that sufficient

⁴⁸ ISA (NZ) 560, *Subsequent Events*, paragraphs 10–17

ISA (NZ) 700 (Revised)

appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of ISAs (NZ) is the earlier date on which those with the recognised authority determine that all the statements and disclosures that comprise the financial statements have been prepared and that those with the recognised authority have asserted that they have taken responsibility for them.

Auditor's Report Prescribed by Law or Regulation (Ref: Para. 50)

~~A68~~**A71**. ISA (NZ) 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to ISAs (NZ).⁴⁹ When the differences between the legal or regulatory requirements and ISAs (NZ) relate only to the layout and wording of the auditor's report, the requirements in paragraph 50(a)–(o) set out the minimum elements to be included in the auditor's report to enable a reference to the International Standards on Auditing (New Zealand). In those circumstances, the requirements in paragraphs 21–49 that are not included in paragraph 50(a)–(o) do not need to be applied including, for example, the required ordering of the Opinion and Basis for Opinion sections.

~~A69~~**A72**. Where specific requirements in law or regulation do not conflict with ISAs (NZ), the layout and wording required by paragraphs 21–49 of this ISA (NZ) assist users of the auditor's report in more readily recognising the auditor's report as a report of an audit conducted in accordance with ISAs (NZ).

Information Required by ISA (NZ) 701 (Ref: Para. 50(h))

~~A70~~**A73**. Law or regulation may require the auditor to provide additional information about the audit that was performed, which may include information that is consistent with the objectives of ISA (NZ) 701, or may prescribe the nature and extent of communication about such matters.

~~A71~~**A74**. The ISAs (NZ) do not override law or regulation that governs an audit of financial statements. When ISA (NZ) 701 is applicable, reference can only be made to ISAs (NZ) in the auditor's report if, in applying the law or regulation, the section required by paragraph 50(h) of this ISA (NZ) is not inconsistent with the reporting requirements in ISA (NZ) 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by ISA (NZ) 701, for example by:

- Modifying the heading “Key Audit Matters”, if law or regulation prescribes a specific heading;
- Explaining why the information required by law or regulation is being provided in the auditor's report, for example by making a reference to the relevant law or regulation and describing how that information relates to the key audit matters;
- Where law or regulation prescribes the nature and extent of the description, supplementing the prescribed information to achieve an overall description of each key audit matter that is consistent with the requirement in paragraph 13 of ISA (NZ) 701.

~~A72~~**A75**. ISA (NZ) 210 deals with circumstances where law or regulation prescribes the layout or wording of the auditor's report in terms that are significantly different from the

⁴⁹ ISA (NZ) 200, paragraph A650

ISA (NZ) 700 (Revised)

requirements of ISAs (NZ), which in particular includes the auditor's opinion. In these circumstances, ISA (NZ) 210 requires the auditor to evaluate:

- (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
- (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, ISA (NZ) 210 requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with ISA (NZ) 210, an audit conducted in accordance with such law or regulation does not comply with ISAs (NZ). Accordingly, the auditor does not include any reference in the auditor's report to the audit having been conducted in accordance with International Standards on Auditing (New Zealand).⁵⁰

Considerations specific to public sector entities

~~A73-A76.~~ Auditors of public sector entities may also have the ability pursuant to law or regulation to report publicly on certain matters, either in the auditor's report or in a supplementary report, which may include information that is consistent with the objectives of ISA (NZ) 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by ISA (NZ) 701 or include a reference in the auditor's report to a description of the matter in the supplementary report.

Auditor's Report for Audits Conducted in Accordance with Both New Zealand Auditing Standards and International Standards on Auditing (Ref: Para. 51)

~~A74-A77.~~ The auditor may refer in the auditor's report to the audit having been conducted in accordance with both International Standards on Auditing as well as the New Zealand auditing standards when the auditor complies with each of the ISAs (NZ) relevant to the audit.⁵¹

~~A75-A78.~~ A reference to both International Standards on Auditing and the national auditing standards is not appropriate if there is a conflict between the requirements in ISAs and those in the national auditing standards that would lead the auditor to form a different opinion or not to include an Emphasis of Matter or Other Matter paragraph that, in the particular circumstances, is required by ISAs. In such a case, the auditor's report refers only to the auditing standards (either International Standards on Auditing or the national auditing standards) in accordance with which the auditor's report has been prepared.

Supplementary Information Presented with the Financial Statements (Ref: Para. 53–54)

~~A76-A79.~~ In some circumstances, the entity may be required by law or regulation, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the applicable financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the applicable financial reporting framework or to provide further explanation of specific

⁵⁰ ISA (NZ) 210, paragraph 21

⁵¹ ISA (NZ) 200, paragraph A6~~16~~

ISA (NZ) 700 (Revised)

financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.

~~A77:~~**A80.** Paragraph 53 of this ISA (NZ) explains that the auditor's opinion covers supplementary information that is an integral part of the financial statements because of its nature or how it is presented. This evaluation is a matter of professional judgement. To illustrate:

- When the notes to the financial statements include an explanation or the reconciliation of the extent to which the financial statements comply with another financial reporting framework, the auditor may consider this to be supplementary information that cannot be clearly differentiated from the financial statements. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
- When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule included as an Appendix to the financial statements, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.

~~A78:~~**A81.** Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the auditor's report is sufficient.

~~A79:~~**A82.** Law or regulation may not require that the supplementary information be audited, and management may decide to ask the auditor not to include the supplementary information within the scope of the audit of the financial statements.

~~A80:~~**A83.** The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labelled as "unaudited."

~~A81:~~**A84.** Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:

- Removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
- Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial statements and clearly labelling them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.

~~A82:~~**A85.** The fact that supplementary information is unaudited does not relieve the auditor of the responsibilities described in ISA (NZ) 720 (Revised).⁵²

⁵² ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

ISA (NZ) 700 (Revised)**Appendix**

(Ref: Para. A19)

Illustrations of Independent Auditor's Reports on Financial Statements

- [NZ] Illustration 1: An auditor's report on financial statements of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a fair presentation framework (for example, NZ IFRS).
- [NZ] Illustration 2: An auditor's report on consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a fair presentation framework (for example, NZ IFRS).
- [NZ] Illustration 3: An auditor's report on financial statements of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a fair presentation framework (for example, Public Benefit Entity Standards) (where reference is made to material that is located on a website of the External Reporting Board).
- [NZ] Illustration 4: An auditor's report on financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a general purpose compliance framework.

ISA (NZ) 700 (Revised)

[NZ] Illustration 1 – Auditor’s Report on Financial Statements of a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example NZ IFRS)

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

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand). The auditor has also chosen to refer to the International Ethics Standards Board for Accountants *International Code of Ethics for Professional Accountants (including International Independence Standards)*. Professional and Ethical Standard 1 and the IESBA Code include independence requirements that are applicable to audits of financial statements of public interest entities. They also require the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest entities were applied.¹
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (Revised).
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements²**Opinion**

We have audited the financial statements of [ABC Company (the Company)], which comprise the

¹ Professional and Ethical Standard 1, paragraph R400.25—R400.26

² The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

ISA (NZ) 700 (Revised)

statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standard 1 and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Other Information [or another title if appropriate such as "Information other than the financial statements and auditor's report thereon"]

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

ISA (NZ) 700 (Revised)

Directors' Responsibilities for the Financial Statements³

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS,⁴ and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the Company for assessing the Company'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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A578.1 explains that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is

https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Description_Auditors_responsibilities.aspx
~~px~~<https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/>.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

³ The term directors may need to be replaced by another term that is appropriate in the context of the legal framework for the entity.

⁴ Where the directors' responsibility is to prepare financial statements that give a true and fair view, this may read: "The directors are responsible on behalf of the Company for the preparation of financial statements that give a true and fair view in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#), and for such ..."

ISA (NZ) 700 (Revised)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.⁵
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, that we identify during our audit, including any:

- sSignificant deficiencies in internal control ~~that we identify during our audit;~~
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in our judgement, relevant to the responsibilities of the directors ~~those charged with governance.~~

7

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under

⁵ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

ISA (NZ) 700 (Revised)

the reporting responsibilities required by the ISAs (NZ) as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs (NZ) may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs (NZ) where such a difference exists.

The engagement partner on the audit resulting in this independent auditor's report is [name].

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

[Auditor Address]

[Date]

ISA (NZ) 700 (Revised)

[NZ] Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example, NZ IFRS)

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

- Audit of a complete set of consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit. Professional and Ethical Standard 1 includes independence requirements that are applicable to audits of financial statements of public interest entities and requires the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (Revised).
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁶**Opinion**

We have audited the consolidated financial statements of [ABC Company and its subsidiaries (the Group)], which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity

⁶ The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

ISA (NZ) 700 (Revised)

and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* issued by the New Zealand Auditing and Assurance Standards Board, as applicable to audits of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Other Information [or another title if appropriate such as "Information other than the consolidated financial statements and auditor's report thereon"]

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

ISA (NZ) 700 (Revised)

Directors' Responsibilities for the Consolidated Financial Statements⁷

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS,⁸ and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group'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 the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A578.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/>. https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Description_Auditors_responsibilities.aspx.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

⁷ Or other terms that are appropriate in the context of the legal framework for the entity.

⁸ Where the directors' responsibility is to prepare financial statements that give a true and fair view, this may read: "The directors are responsible on behalf of the Group for the preparation of financial statements that give a true and fair view in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#), and for such ..."

ISA (NZ) 700 (Revised)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.⁹
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, that we identify during our audit, including any:

- Significant deficiencies in internal control ~~that we identify during our audit~~
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in our judgment, relevant to the responsibilities of the directors ~~those charged with governance.~~

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of

⁹ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements.

ISA (NZ) 700 (Revised)

such communication.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law or regulation. The matters addressed by other law or regulation (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs (NZ) as part of the Report on the Audit of the Consolidated Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs (NZ) may be combined (i.e., included in the Report on the Audit of the Consolidated Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs (NZ) where such a difference exists.]

The engagement partner on the audit resulting in this independent auditor's report is [name].

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

[Auditor Address]

[Date]

ISA (NZ) 700 (Revised)

[NZ] Illustration 3 – Auditor’s Report on Financial Statements of a Public Benefit Entity that is not a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example, Public Benefit Entity Standards)

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

- Audit of a complete set of financial statements of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with Public Benefit Entity Standards¹⁰ (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570-~~(Revised)~~.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.
- The auditor elects to refer to the description of the auditor’s responsibility included on the website of the XRB.

INDEPENDENT AUDITOR’S REPORT

¹⁰ The use of Public Benefit Entity Standards is used for the purposes of illustration. The appropriate financial reporting standards to be applied by an entity will be determined by the tier structure established in XRB A1 *Application of the Accounting Standards Framework*. The Auditor’s Report would identify one of the following:

- New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards. (This may also include compliance with International Financial Reporting Standards)
- New Zealand equivalents to ~~International Financial Reporting Standards~~ IFRS Accounting Standards Reduced Disclosure Regime
- Public Benefit Entity Standards
- Public Benefit Entity Standards Reduced Disclosure Regime
- Reporting Requirements for Tier 3 Public Sector Entities (Tier 3 (PS) Standard)
- Reporting Requirements for Tier 3 Not-for-Profit Entities (Tier 3 (NFP) Standard).

ISA (NZ) 700 (Revised)

To Appropriate Addressee

Opinion

We have audited the financial statements of [ABC [entity (the entity)]], which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

Basis for Opinion

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

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that those charged with governance's ~~director's~~ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the [entity]'s ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the [entity]'s ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information other than the financial statements and auditor's report thereon"]

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

ISA (NZ) 700 (Revised)

Responsibilities of Those Charged with Governance for the Financial Statements¹¹

Those charged with governance are responsible on behalf of the [entity] for the preparation and fair presentation of the financial statements in accordance with Public Benefit Entity Standards,¹² and for such internal control as those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the XRB's website at <https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/>. ~~https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Description_Auditors_responsibilities.aspx~~. [auditor to link to the appropriate webpage containing the applicable description of the auditor's responsibilities for the audit.] This description forms part of our auditor's report.

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

[Auditor Address]

[Date]

¹¹ Or other terms that are appropriate in the context of the legal framework of the entity

¹² Where the responsibility of those charged with governance is to prepare financial statements that give a true and fair view, this may read: "Those charged with governance are responsible on behalf of the entity for the preparation of financial statements that give a true and fair view in accordance with Public Benefit Entity Standards, and for such ..."

ISA (NZ) 700 (Revised)

[NZ] Illustration 4 – Auditor’s Report on Financial Statements of an Entity Other than a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a General Purpose Compliance Framework

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability required by law or regulation. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Opinion

We have audited the financial statements of [ABC Company (the Company)], which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities*

ISA (NZ) 700 (Revised)

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

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that ~~director's~~those charged with governance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information other than the financial statements and auditor's report thereon"]

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

Responsibilities of Those Charged with Governance for the Financial Statements¹³

[Those charged with governance] are responsible on behalf of the Company for the preparation of the financial statements in accordance with XYZ Law of Jurisdiction X, and for such internal control as those charged with governance determine is necessary to enable the preparation of financial statements that is 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 Company for assessing the Company'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 intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

¹³ Or other terms that are appropriate in the context of the legal framework for the entity.

ISA (NZ) 700 (Revised)

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

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A578.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Description_Auditors_responsibilities.aspx.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.¹⁴
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

- Significant deficiencies in internal control that we identify during our audit
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in our judgment, relevant to the responsibilities of those charged with governance.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.

¹⁴ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

ISA (NZ) 700 (Revised)

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

[*Auditor Address*]

[*Date*]

ISA (NZ) 700 (Revised)**[NZ] Appendix 2**

(Ref: Para. NZ28.1)

Existence of any Other Relationship of the Auditor with the Entity

Paragraph NZ 28.1 of this ISA (NZ) requires the auditor of *all* entities to state in the auditor's report the existence of any relationship (other than that of auditor) which the auditor has with, or any interests the auditor has in, the entity or any of its subsidiaries.

The material below sets out an example of wording which can be used in the auditor's report where the auditor has a relationship with (other than that of auditor), or interests in, an entity or any of its subsidiaries.

"Our firm carries out other assignments for the [entity] in the area of taxation advice and special consultancy projects. In addition to this, principals and employees of our firm deal with the [entity] on normal terms within the ordinary course of trading activities of the business of [entity]. The firm has no other relationship with, or interests in, the [entity].

ISA (NZ) 700 (Revised)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 700 (Revised).

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*, issued by the International Auditing and Assurance Standards Board (~~IAASB~~), ~~an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

ISA (NZ) 700 (Revised) includes transitional provisions for the reporting of key audit matters. The auditor of a FMC reporting entity considered to have a higher level of public accountability, other than a listed issuer, is only required to report key audit matters for the audits of financial statements for periods ending on or after 31 December 2018. [Ref: Para NZ5.2]

The following requirements are additional to or have been amended from ISA 700 (Revised):

- In New Zealand, those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both. [Ref: Para. NZ4.1]
- Reference to “New Zealand equivalents to International Financial Reporting Standards-IFRS Accounting Standards (NZ IFRS)” or other applicable financial reporting requirements in this ISA (NZ) means the New Zealand equivalents to International Financial Reporting Standards-IFRS Accounting Standards or other financial reporting requirements issued by the New Zealand Accounting Standards Board. [Ref: Para. NZ9.1]
- For an entity in New Zealand, that is required to apply the New Zealand Accounting Standards Framework, the reference to the applicable financial reporting framework in the auditor’s opinion should be to the applicable financial reporting requirements issued by the New Zealand Accounting Standards Board that apply to the tier under which the entity is reporting. [Ref: Para. NZ27.1]
- In New Zealand, the statement required by paragraph 28(c) shall refer to Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (Revised) Code of Ethics for Assurance Practitioner issued by the New Zealand Auditing and Assurance Standards Board. Professional and Ethical Standard 1 (Revised) is at least as restrictive as Parts A and B of the IESBA Code ~~related to an audit of financial statements~~. [Ref: Para. NZ28(c)]

ISA (NZ) 700 (Revised)

- The auditor's report shall include a statement 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. [NZ] Appendix 2 provides an example of the wording that may be used in the audit of financial statements to identify any relationships with, or interests in, the entity. [Ref: Para. NZ 28.1]
- For audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA (NZ) 701, not just for listed entities as required by ISA 700. [Ref: Para NZ30.1]
- References in the auditor's report to the responsibilities of management for the preparation of the financial statements have been amended to refer to the responsibilities of those charged with governance in paragraphs NZ 33.1 and NZ 34.1.
- The auditor's report for all FMC reporting entities considered to have a higher level of public accountability shall state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards, not just for listed entities as required by ISA 700. [Ref: Para. NZ40(b)(1)]
- The name of the engagement partner shall be included in the auditor's report on financial statements for all FMC reporting entities considered to have a higher level of public accountability in New Zealand unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. ISA 700 only requires this for listed entities. [Ref: Para. NZ 46.1]
- If the auditor is required by law or regulation to use a specific layout in the auditor's report, the opinion paragraph shall:
 - identify the specific set of standards issued by the New Zealand Accounting Standards Board used to prepare the financial statements. [Ref: Para. NZ50 (c).1]
 - The independence statement in New Zealand shall refer to Professional and Ethical Standard 1 ~~(Revised) Code of Ethics for Assurance Practitioners~~ *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. [Ref Para. NZ50(e)(1)].
 - include a description of the responsibilities of those charged with governance rather than for management for the preparation of the financial statements that addresses, and is not inconsistent with, the requirements in paragraphs 33–36. [Ref: Para.NZ50(j)(1)]
 - For audits of complete sets of general purpose financial statements of all FMC reporting entities considered to have a higher level of public accountability not only listed entities, include the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. [Ref: Para. NZ50(l)(1)]
- Clarification has been added that there are no conflicts between the requirements in the ISAs (NZ) and the ISAs. [Ref: Para. NZ51.1]

ISA (NZ) 700 (Revised)

The [NZ] illustrative reports have been amended in accordance with these NZ modifications.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

[References to publicly traded entities have been broadened to refer to FMC reporting entities considered to have a higher level of public accountability in New Zealand.](#)

Compliance with this ISA (NZ) enables compliance with ISA 700 (Revised).

Comparison with Australian Auditing Standards

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 700 *Forming and Opinion and Reporting on a Financial Report*.

ASA 700 conforms to ISA 700.

The following requirements are additional to ISA 700 (Revised) and ISA (NZ) 700 (Revised):

- Paragraph Aus 28(c) requires the auditor to identify the relevant ethical requirements applicable within Australia when providing the basis for opinion.
- Paragraph Aus 45.1 requires the name of the engagement partner to be included in the auditor's report where required by law or regulation.
- Paragraph Aus 49(e) requires the auditor to identify the relevant ethical requirements applicable within Australia when using an auditor's report prescribed by law or regulation.
- Paragraph Aus 49(k) requires the name of the engagement partner where required by law or regulation when using an auditor's report prescribed by law or regulation.

The equivalent requirements and related application and other explanatory material included in ISA 700 in respect of "relevant ethical requirements", have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

ISA (NZ) 700 (Revised)

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 700 (Revised)</u> <u>Forming an Opinion and Reporting on Financial Statements</u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 701

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

~~This Standard was issued on 1 October 2015 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 28 October 2015.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods ending on or after 15 December 2016. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 701 being issued.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including June 2022.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 701 issued by the External Reporting Board in October 2015.

COPYRIGHT

© External Reporting Board (“XRB”) 2015

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927292-84-6

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 701 *Communicating Key Audit Matters in the Independent Auditor's Report*— issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 701 issued by the External Reporting Board in October 2015 (as amended to June 2022).

The revision of ISA (NZ) 701 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 701

COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Commencement and Application	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1–5
Effective Date	6-NZ6.1
Objectives	7
Definition	8
Requirements	
Determining Key Audit Matters	9–10
Communicating Key Audit Matters	11–16
Communication with Those Charged with Governance	17
Documentation	18
Application and Other Explanatory Material	
Scope of this ISA (NZ)	A1–A98
Determining Key Audit Matters	A109–A320
Communicating Key Audit Matters	A331–A6159
Communication with Those Charged with Governance	A620–A653
Documentation	A664
Accompanying Attachment: Conformity to the International Standards on Auditing	

International Standard on Auditing (New Zealand) (ISA (NZ)) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

ISA (NZ) 701

History of Amendments

Table of pronouncements – ISA (NZ) 701 *Communicating Key Audit Matters in the Independent Auditor's Report*

This table lists the pronouncements establishing and amending ISA (NZ) 701.

Pronouncements		Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 701		<u>October 2025</u> <u>September 2015</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for audits of historical financial statements for periods ending on or after 15 December 2016, except for the New Zealand transitional provisions that apply to FMC reporting entities considered to have a higher level of public accountability, other than listed issuers that only requires the reporting of key audit matters for such entities for periods ending on or after 31 December 2018.</u>
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates)~~		~~October 2018~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2019. Early adoption is permitted.~~
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~		~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021~~
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~		~~July 2021~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)~~		~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023~~
Table of Amended Paragraphs in ISA (NZ) 701			
Paragraph affected	How affected	By...[date]	

ISA (NZ) 701

Table of Amended Paragraphs in ISA (NZ) 701		
9, A24	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements (Auditing Estimates) [Oct 2018]
9, A20, A22 Footnotes 5, 24, 27	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)
A15, A63	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]
A15	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to communicate key audit matters in the auditor's report. It is intended to address both the auditor's judgement as to what to communicate in the auditor's report and the form and content of such communication.
 2. The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements ("intended users") to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgement in the audited financial statements. (Ref: Para. A1–A4)
 3. The communication of key audit matters in the auditor's report may also provide intended users a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.
 4. Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not:
 - (a) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;
 - (b) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with ISA (NZ) 705 (Revised);²
 - (c) A substitute for reporting in accordance with ISA (NZ) 570 ~~(Revised)~~³ ~~when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern~~; or
 - (d) A separate opinion on individual matters. (Ref: Para. A5–A8)
 5. [Amended by the NZAuASB].
- NZ5.1 This ISA (NZ) applies to audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This ISA (NZ) also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report.⁴ However, ISA (NZ) 705 (Revised) prohibits the auditor from communicating key audit matters when the

² ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

³ ISA (NZ) 570 ~~(Revised)~~, *Going Concern*, paragraphs ~~22–23~~^{34–38}

⁴ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 30–31

ISA (NZ) 701

auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.⁵

Effective Date

6. ~~This ISA (NZ) is effective for audits of financial statements for periods ending on or after 15 December 2016. [Note: For effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~
7. ~~NZ 6.1 This Standard repeals ISA (NZ) 701 *Communicating Key Audit Matters in the Independent Auditor's Report* issued in October 2015.~~

Transitional provisions

~~NZ6.1 Paragraph NZ5.1 of this ISA (NZ) requires that for audits of complete sets of general purpose financial statements of a FMC reporting entity considered to have a higher level of public accountability, the auditor shall communicate key audit matters in the auditor's report. The requirement to report key audit matters is subject to the following transitional provisions:~~

- ~~• For the audits of complete sets of general purpose financial statements of listed issuers, the auditor shall communicate key audit matters in the auditor's report for periods ending on or after 15 December 2016. For the purposes of this transitional provision, a listed issuer is defined as a person that is party to a listing agreement with a licensed market operator in relation to a licensed market (and includes a licensed market operator that has financial products quoted on its own licensed market) (as defined in the Financial Markets Conduct Act 2013 section 6(1)).~~
- ~~• For the audits of complete sets of general purpose financial statements of a FMC reporting entity considered to have a higher level of public accountability other than listed issuers, the auditor shall communicate key audit matters in the auditor's report for periods ending on or after 31 December 2018.~~

Objectives

- ~~8.7.~~ The objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.

Definition

- ~~9.8.~~ For purposes of the ISAs (NZ), the following term has the meaning attributed below:

Key audit matters—Those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

⁵ ISA (NZ) 705 (Revised), paragraph 29

Requirements

Determining Key Audit Matters

~~10.9.~~ The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. ~~A9–A18~~[A10-A20](#))

- (a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA (NZ) 315 (Revised 2019).⁶ (Ref: Para. ~~A39–A43~~[A41-A45](#))
- (b) Significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that are subject to a high degree of estimation uncertainty. (Ref: Para. ~~A23–A24~~[A25-A26](#))
- (c) The effect on the audit of significant events or transactions that occurred during the period. (Ref: Para. ~~A25–A26~~[A27-A28](#))

~~11.10.~~ The auditor shall determine which of the matters determined in accordance with paragraph 9 were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters. (Ref: Para. ~~A9–A11~~[A10-A12](#), ~~A27–A30~~[A29-A32](#))

Communicating Key Audit Matters

~~12.11.~~ The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters," unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that:

- (a) Key audit matters are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements [of the current period]; and
- (b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. ~~A31–A33~~[A33-A35](#))

Key Audit Matters Not a Substitute for Expressing a Modified Opinion

~~13.12.~~ The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with ISA (NZ) 705 (Revised) as a result of the matter. (Ref: Para. A5)

Descriptions of Individual Key Audit Matters

~~14.13.~~ The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address: (Ref: Para. ~~A34–A41~~[A36-A43](#))

- (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and (Ref: Para. ~~A42–A45~~[A44-A47](#))

⁶ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

ISA (NZ) 701

- (b) How the matter was addressed in the audit. (Ref: Para. ~~A46–A51~~~~A48–A53~~)

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report

~~15.14.~~ The auditor shall describe each key audit matter in the auditor's report unless: (Ref: Para. A5~~53~~–A5~~86~~)

- (a) Law or regulation precludes public disclosure about the matter; or (Ref: Para. A5~~42~~)
- (b) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report

~~16.15.~~ The following are, by their nature, key audit matters: ~~Aa~~ matter giving rise to a modified opinion in accordance with ISA (NZ) 705 (Revised), or, in accordance with ISA (NZ) 570, a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern or when significant judgements were made by management in concluding that there is no material uncertainty in accordance with ISA (NZ) 570 (Revised), are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13–14 do not apply. Rather, the auditor shall:

- (a) Report on these matter(s) in accordance with the applicable ISA(s) (NZ); and
- (b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern or the Going Concern section(s) in the Key Audit Matters section. (Ref: Para. A6–A7)

Form and Content of the Key Audit Matters Section in Other Circumstances

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15, the auditor shall include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters." (Ref: Para. A5~~97~~–A6~~159~~)

Communication with Those Charged with Governance

17. The auditor shall communicate with those charged with governance:
- (a) Those matters the auditor has determined to be the key audit matters; or
 - (b) If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report. (Ref: Para. A6~~20~~–A6~~53~~)

Documentation

18. The auditor shall include in the audit documentation:⁷ (Ref: Para. A6~~6~~4)
- (a) The matters that required significant auditor attention as determined in accordance with paragraph 9, and the rationale for the auditor's determination as to whether or not each of these matters is a key audit matter in accordance with paragraph 10;
 - (b) Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report or that the only key audit matters to communicate are those matters addressed by paragraph 15; and
 - (c) Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.

Application and Other Explanatory Material

Scope of this ISA (NZ) (Ref: Para. 2)

- A1. Significance can be described as the relative importance of a matter, taken in context. The significance of a matter is judged by the auditor in the context in which it is being considered. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients. This involves an objective analysis of the facts and circumstances, including the nature and extent of communication with those charged with governance.
- A2. Users of financial statements have expressed an interest in those matters about which the auditor had the most robust dialogue with those charged with governance as part of the two-way communication required by ISA (NZ) 260 (Revised)⁸ and have called for additional transparency about those communications. For example, users have expressed particular interest in understanding significant judgements made by the auditor in forming the opinion on the financial statements as a whole, because they are often related to the areas of significant management judgement in preparing the financial statements.
- A3. Requiring auditors to communicate key audit matters in the auditor's report may also enhance communications between the auditor and those charged with governance about those matters, and may increase attention by management and those charged with governance to the disclosures in the financial statements to which reference is made in the auditor's report.
- A4. ISA (NZ) 320⁹ explains that it is reasonable for the auditor to assume that users of the financial statements:
- (a) Have a reasonable knowledge of business and economic activities and accounting

⁷ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11 and A6

⁸ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

⁹ ISA (NZ) 320, *Materiality in Planning and Performing the Audit*, paragraph 4

ISA (NZ) 701

and a willingness to study the information in the financial statements with reasonable diligence;

- (b) Understand that the financial statements are prepared, presented and audited to levels of materiality;
- (c) Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- (d) Make reasonable economic decisions on the basis of the information in the financial statements.

Because the auditor's report accompanies the audited financial statements, the users of the auditor's report are considered to be the same as the intended users of the financial statements.

Relationship between Key Audit Matters, the Auditor's Opinion and Other Elements of the Auditor's Report (Ref: Para. 4, 12, 15)

- A5. ISA (NZ) 700 (Revised) establishes requirements and provides guidance on forming an opinion on the financial statements.¹⁰ Communicating key audit matters is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation. ISA (NZ) 705 (Revised) addresses circumstances in which the auditor concludes that there is a material misstatement relating to the appropriateness or adequacy of disclosures in the financial statements.¹¹
- A6. When the auditor expresses a qualified or adverse opinion in accordance with ISA (NZ) 705 (Revised), presenting the description of a matter giving rise to a modified opinion in the Basis for Qualified (Adverse) Opinion section helps to promote intended users' understanding and to identify such circumstances when they occur. Separating the communication of this matter from other key audit matters described in the Key Audit Matters section therefore gives it the appropriate prominence in the auditor's report (see paragraph 15). The Appendix in ISA (NZ) 705 (Revised) includes illustrative examples of how the introductory language in the Key Audit Matters section is affected when the auditor expresses a qualified or adverse opinion and other key audit matters are communicated in the auditor's report. Paragraph A58 of this ISA (NZ) illustrates how the Key Audit Matters section is presented when the auditor has determined that there are no other key audit matters to be communicated in the auditor's report beyond matters addressed in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section of the auditor's report.
- A7. When the auditor expresses a qualified or adverse opinion, communicating other key audit matters would still be relevant to enhancing intended users' understanding of the audit, and therefore the requirements to determine key audit matters apply. However, as an adverse opinion is expressed in circumstances when the auditor has concluded that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements:¹²

¹⁰ ISA (NZ) 700 (Revised), paragraphs 10–15 and A1–A15

¹¹ See paragraph A7 of ISA (NZ) 705 (Revised)

¹² ISA (NZ) 705 (Revised), paragraph 8

ISA (NZ) 701

- Depending on the significance of the matter(s) giving rise to an adverse opinion, the auditor may determine that no other matters are key audit matters. In such circumstances, the requirement in paragraph 15 applies (see paragraph A58).
- If one or more matters other than the matter(s) giving rise to an adverse opinion are determined to be key audit matters, it is particularly important that the descriptions of such other key audit matters do not imply that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, in view of the adverse opinion (see paragraph A47).

[A8.](#) ISA (NZ) 706 (Revised)¹³ establishes mechanisms for auditors of financial statements of all entities to include additional communication in the auditor's report through the use of Emphasis of Matter paragraphs and Other Matter paragraphs when the auditor considers it necessary to do so. In such cases, these paragraphs are presented separately from the Key Audit Matters section in the auditor's report. When a matter has been determined to be a key audit matter, the use of such paragraphs is not a substitute for the description of the individual key audit matter in accordance with paragraph 13.¹⁴ ISA (NZ) 706 (Revised) provides further guidance on the relationship between key audit matters and Emphasis of Matter paragraphs in accordance with that ISA (NZ).¹⁵

[A8-A9.](#) [ISA \(NZ\) 240¹⁶ includes requirements for determining and communicating key audit matters related to fraud. The requirements and guidance in ISA \(NZ\) 240 refer to, or expand on, the application of this ISA \(NZ\).](#)

Determining Key Audit Matters (Ref: Para. 9–10)

[A9-A10.](#) The auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters from the matters communicated with those charged with governance, based on the auditor's judgement about which matters were of most significance in the audit of the financial statements of the current period.

[A10-A11.](#) The auditor's determination of key audit matters is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented (i.e., even when the auditor's opinion refers to each period for which financial statements are presented).¹⁷

[A11-A12.](#) Notwithstanding that the auditor's determination of key audit matters is for the audit of the financial statements of the current period and this ISA (NZ) does not require the auditor to update key audit matters included in the prior period's auditor's report, it may nevertheless be useful for the auditor to consider whether a matter that was a key audit matter in the audit of the financial statements of the prior period continues to be a key audit matter in the audit of the financial statements of the current period.

¹³ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

¹⁴ See paragraphs 8(b) and 10(b) of ISA (NZ) 706 (Revised)

¹⁵ ISA (NZ) 706 (Revised), paragraphs A1–A3

¹⁶ [ISA \(NZ\) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 60–62](#)

¹⁷ See ISA (NZ) 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*

Matters that Required Significant Auditor Attention (Ref: Para. 9)

~~A12.~~~~A13.~~ The concept of significant auditor attention recognises that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. For a particular account balance, class of transactions or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgement is often involved in planning and performing the audit procedures and evaluating the results thereof. In designing further audit procedures, the auditor is required to obtain more persuasive audit evidence the higher the auditor's assessment of risk.¹⁸ When obtaining more persuasive audit evidence because of a higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.¹⁹

~~A13.~~~~A14.~~ Accordingly, matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or pose challenges to the auditor in forming an opinion on the financial statements may be particularly relevant in the auditor's determination of key audit matters.

~~A14.~~~~A15.~~ Areas of significant auditor attention often relate to areas of complexity and significant management judgement in the financial statements, and therefore often involve difficult or complex auditor judgements. In turn, this often affects the auditor's overall audit strategy, the allocation of resources and extent of audit effort in relation to such matters. These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert or individuals with expertise in a specialised area of accounting or auditing, whether engaged or employed by the firm to address these areas.

~~A15.~~~~A16.~~ Various ISAs (NZ) require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ISA (NZ) 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.²⁰ The ISAs (NZ) acknowledge potential difficulties in relation to, for example:
 - Related party transactions,²¹ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.
 - Limitations on the group audit, for example, where access to information or people may have been restricted.²²

¹⁸ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*, paragraph 7(b)

¹⁹ ISA (NZ) 330, paragraph A19

²⁰ ISA (NZ) 260 (Revised), paragraphs 16(b) and A21

²¹ ISA (NZ) 550, *Related Parties*, paragraph A42

²² ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 57(c)

ISA (NZ) 701

- ISA (NZ) 220 (Revised) establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters, matters on which the firm's policies or procedures require consultation,²³ and other matters that in the engagement partner's professional judgement, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters and significant judgements arising during the audit engagement with the engagement quality reviewer.²⁴

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

A16:A17. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with ISA (NZ) 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit or evidence obtained throughout the audit.

A17:A18. Paragraph 9 includes specific required considerations in the auditor's determination of those matters that required significant auditor attention. These considerations focus on the nature of matters communicated with those charged with governance that are often linked to matters disclosed in the financial statements, and are intended to reflect areas of the audit of the financial statements that may be of particular interest to intended users. The fact that these considerations are required is not intended to imply that matters related to them are always key audit matters; rather, matters related to such specific considerations are key audit matters only if they are determined to be of most significance in the audit in accordance with paragraph 10. As the considerations may be interrelated (e.g., matters relating to the circumstances described in paragraphs 9(b)-(c) may also be identified as significant risks), the applicability of more than one of the considerations to a particular matter communicated with those charged with governance may increase the likelihood of the auditor identifying that matter as a key audit matter.

A19. In addition to matters that relate to the specific required considerations in paragraph 9, there may be other matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 10. Such matters may include, for example, matters relevant to the audit that was performed that may not be required to be disclosed in the financial statements. For example, the implementation of a new IT system (or significant changes to an existing IT system) during the period may be an area of significant auditor attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or related to a significant risk (e.g., changes to a system affecting revenue recognition).

²³ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 35

²⁴ ISA (NZ) 220 (Revised), paragraph 36

ISA (NZ) 701

~~A18:A20.~~ ISA (NZ) 240²⁵ notes that matters related to fraud are often matters that require significant auditor attention and that, given the interest of users of the financial statements, one or more of the matters related to fraud that required significant auditor attention in performing the audit, determined in accordance with paragraph 60 of ISA (NZ) 240, would ordinarily be of most significance in the audit of the financial statements of the current period and therefore are key audit matters.

Areas of Higher Assessed Risk of Material Misstatement, or Significant Risks Identified in Accordance with ISA (NZ) 315 (Revised 2019) (Ref: Para. 9(a))

~~A19:A21.~~ ISA (NZ) 260 (Revised) requires the auditor to communicate with those charged with governance about the significant risks identified by the auditor.²⁶ Paragraph A13 of ISA (NZ) 260 (Revised) explains that the auditor may also communicate with those charged with governance about how the auditor plans to address areas of higher assessed risks of material misstatement.

~~A20:A22.~~ ISA (NZ) 315 (Revised 2019) defines a significant risk as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which the inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur.²⁷ Areas of significant management judgement and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.

~~A21:A23.~~ ~~However, this may not be the case for all significant risks. For example,~~ ISA (NZ) 240 presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks.²⁸ In addition, ISA (NZ) 240 indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk.²⁹ ~~The auditor may determine these matters to be key audit matters related to fraud because risks of material misstatement due to fraud are often matters that both require significant auditor attention and are of most significance in the audit. However, this may not be the case for all these matters. The auditor may determine certain risks of material misstatement due to fraud did not require significant auditor attention. Depending on their nature, these risks may not require significant auditor attention, and therefore, these risks would not be considered in the auditor's determination of key audit matters in accordance with paragraph 10.~~

~~A22:A24.~~ ISA (NZ) 315 (Revised 2019) explains that the auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit

²⁵ — ISA (NZ) 240, paragraphs A179 and A185

²⁶ ISA (NZ) 260 (Revised), paragraph 15

²⁷ ISA (NZ) 315 (Revised 2019), paragraph 12(l)

²⁸ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 27–2839(b) and 41

²⁹ ISA (NZ) 240, paragraphs 3239(b) and 40

ISA (NZ) 701

as additional audit evidence is obtained.³⁰ Revision to the auditor's risk assessment and reevaluation of the planned audit procedures with respect to a particular area of the financial statements (i.e., a significant change in the audit approach, for example, if the auditor's risk assessment was based on an expectation that certain controls were operating effectively and the auditor has obtained audit evidence that they were not operating effectively throughout the audit period, particularly in an area with higher assessed risk of material misstatement) may result in an area being determined as one requiring significant auditor attention.

Significant Auditor Judgements Relating to Areas in the Financial Statements that Involved Significant Management Judgement, Including Accounting Estimates that Are Subject to a High Degree of Estimation Uncertainty (Ref: Para. 9(b))

A23-A25. ISA (NZ) 260 (Revised) requires the auditor to communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.³¹ In many cases, this relates to critical accounting estimates and related disclosures, which are likely to be areas of significant auditor attention, and also may be identified as significant risks.

A24-A26. However, users of the financial statements have highlighted their interest in accounting estimates that are subject to a high degree of estimation uncertainty (see ISA (NZ) 540 (Revised)³²) that may have not been determined to be significant risks. Among other things, such estimates are highly dependent on management judgement and are often the most complex areas of the financial statements, and may require the involvement of both a management's expert and an auditor's expert. Users have also highlighted that accounting policies that have a significant effect on the financial statements (and significant changes to those policies) are relevant to their understanding of the financial statements, especially in circumstances where an entity's practices are not consistent with others in its industry.

The Effect on the Audit of Significant Events or Transactions that Occurred during the Period (Ref: Para. 9(c))

A25-A27. Events or transactions that had a significant effect on the financial statements or the audit may be areas of significant auditor attention and may be identified as significant risks. For example, the auditor may have had extensive discussions with management and those charged with governance at various stages throughout the audit about the effect on the financial statements of significant transactions with related parties or significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.³³ Management may have made difficult or complex judgements in relation to recognition, measurement, presentation or disclosure of such transactions, which may have had a significant effect on the auditor's overall strategy.

³⁰ ISA (NZ) 315 (Revised 2019), paragraph 37

³¹ ISA (NZ) 260 (Revised), paragraph 16(a)

³² See paragraph 15 of ISA (NZ) 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

³³ See paragraphs 16(a), 16(c) and A22, and Appendix 2, of ISA (NZ) 260 (Revised)

ISA (NZ) 701

~~A26-A28.~~ Significant economic, accounting, regulatory, industry, or other developments that affected management's assumptions or judgements may also affect the auditor's overall approach to the audit and result in a matter requiring significant auditor attention.

Matters of Most Significance (Ref: Para. 10)

~~A27-A29.~~ Matters that required significant auditor attention also may have resulted in significant interaction with those charged with governance. The nature and extent of communication about such matters with those charged with governance often provides an indication of which matters are of most significance in the audit. For example, the auditor may have had more in-depth, frequent or robust interactions with those charged with governance on more difficult and complex matters, such as the application of significant accounting policies that were the subject of significant auditor or management judgement.

~~A28-A30.~~ The concept of matters of most significance is applicable in the context of the entity and the audit that was performed. As such, the auditor's determination and communication of key audit matters is intended to identify matters specific to the audit and to involve making a judgement about their importance relative to other matters in the audit.

~~A29-A31.~~ Other considerations that may be relevant to determining the relative significance of a matter communicated with those charged with governance and whether such a matter is a key audit matter include:

- The importance of the matter to intended users' understanding of the financial statements as a whole, in particular, its materiality to the financial statements.
- The nature of the underlying accounting policy relating to the matter or the complexity or subjectivity involved in management's selection of an appropriate policy compared to other entities within its industry.
- The nature and materiality, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements due to fraud or error related to the matter, if any.
- The nature and extent of audit effort needed to address the matter, including:
 - The extent of specialised skill or knowledge needed to apply audit procedures to address the matter or evaluate the results of those procedures, if any.
 - The nature of consultations outside the engagement team regarding the matter.
- The nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion, in particular as the auditor's judgements become more subjective.
- The severity of any control deficiencies identified relevant to the matter.
- Whether the matter involved a number of separate, but related, auditing considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies, and may have an effect on other accounting estimates.

~~A30-A32.~~ Determining which, and how many, of those matters that required significant auditor attention were of most significance in the audit of the financial statements of the

ISA (NZ) 701

current period is a matter of professional judgement. The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In general, the greater the number of matters initially determined to be key audit matters, the more the auditor may need to reconsider whether each of these matters meets the definition of a key audit matter. Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit.

Communicating Key Audit Matters

Separate Key Audit Matters Section in the Auditor's Report (Ref: Para. 11)

~~A31~~~~A33~~. Placing the separate Key Audit Matters section in close proximity to the auditor's opinion may give prominence to such information and acknowledge the perceived value of engagement-specific information to intended users.

~~A32~~~~A34~~. The order of presentation of individual matters within the Key Audit Matters section is a matter of professional judgement. For example, such information may be organised in order of relative importance, based on the auditor's judgement, or may correspond to the manner in which matters are disclosed in the financial statements. The requirement in paragraph 11 to include subheadings is intended to further differentiate the matters.

~~A33~~~~A35~~. When comparative financial information is presented, the introductory language of the Key Audit Matters section is tailored to draw attention to the fact that the key audit matters described relate to only the audit of the financial statements of the current period, and may include reference to the specific period covered by those financial statements (e.g., "for the year ended December 31, 20X1").

Descriptions of Individual Key Audit Matters (Ref: Para. 13)

~~A34~~~~A36~~. The adequacy of the description of a key audit matter is a matter of professional judgement. The description of a key audit matter is intended to provide a succinct and balanced explanation to enable intended users to understand why the matter was one of most significance in the audit and how the matter was addressed in the audit. Limiting the use of highly technical auditing terms also helps to enable intended users who do not have a reasonable knowledge of auditing to understand the basis for the auditor's focus on particular matters during the audit. The nature and extent of information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not inappropriately being the provider of original information about the entity).

~~A35~~~~A37~~. Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g., has not been included in the financial statements or other information available at the date of the auditor's report, or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). Such information is the responsibility of the entity's management and those charged with governance.

ISA (NZ) 701

~~A36-A38.~~ A36. It is appropriate for the auditor to seek to avoid the description of a key audit matter inappropriately providing original information about the entity. The description of a key audit matter is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter, and how the matter was addressed in the audit, provided that disclosure of such information is not precluded by law or regulation. When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report.

~~A37-A39.~~ Management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.

~~A38-A40.~~ ISA (NZ) 720 (Revised) defines the term annual report and explains that documents such as a management report, management commentary, or operating and financial review or similar reports by those charged with governance (e.g., a director's report); a Chairman's statement; corporate governance statement; or internal control and risk assessment reports may form part of the annual report.³⁴ ISA (NZ) 720 (Revised) addresses the auditor's responsibilities relating to other information included in the annual report. Although the auditor's opinion on the financial statements does not cover the other information, the auditor may consider this information, as well as other publicly available communications by the entity or other credible sources, in formulating the description of a key audit matter.

~~A39-A41.~~ Audit documentation prepared during the audit can also be useful to the auditor in formulating the description of a key audit matter. For example, written communications, or the auditor's documentation of oral communications, with those charged with governance and other audit documentation provides a useful basis for the auditor's communication in the auditor's report. This is because audit documentation in accordance with ISA (NZ) 230 is intended to address the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions, and serves as a record of the nature, timing and extent of the audit procedures performed, the results of those procedures, and the audit evidence obtained. Such documentation may assist the auditor in developing a description of key audit matters that explains the significance of the matter and also in applying the requirement in paragraph 18.

³⁴ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraphs 12(a) and A1-A3

ISA (NZ) 701

Reference to Where the Matter Is Disclosed in the Financial Statements (Ref: Para. 13)

~~A40.~~**A42.** Paragraphs 13(a)-(b) requires the description of each key audit matter to address why the auditor considered the matter to be one of most significance in the audit and how the matter was addressed in the audit. Accordingly, the description of key audit matters is not a mere reiteration of what is disclosed in the financial statements. However, a reference to any related disclosures enables intended users to further understand how management has addressed the matter in preparing the financial statements.

~~A41.~~**A43.** In addition to referring to related disclosure(s), the auditor may draw attention to key aspects of them. The extent of disclosure by management about specific aspects or factors in relation to how a particular matter is affecting the financial statements of the current period may help the auditor in pinpointing particular aspects of how the matter was addressed in the audit such that intended users can understand why the matter is a key audit matter. For example, When an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of addressing why the matter was one of most significance in the audit and how the matter was addressed in the audit.

- ~~When an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of addressing why the matter was one of most significance in the audit and how the matter was addressed in the audit.~~
- ~~When the auditor concludes in accordance with ISA (NZ) 570 (Revised) that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may nevertheless determine that one or more matters relating to this conclusion arising from the auditor's work effort under ISA (NZ) 570 (Revised) are key audit matters. In such circumstances, the auditor's description of such key audit matters in the auditor's report could include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors.³⁵~~

Why the Auditor Considered the Matter to Be One of Most Significance in the Audit (Ref: Para. 13(a))

~~A42.~~**A44.** The description of a key audit matter in the auditor's report is intended to provide insight as to why the matter was determined to be a key audit matter. Accordingly, the requirements in paragraphs 9–10 and the application material in paragraphs A12–A29 related to determining key audit matters may also be helpful for the auditor in considering how such matters are to be communicated in the auditor's report. For example, explaining the factors that led the auditor to conclude that a particular matter required significant

³⁵ See paragraph A3 of ISA (NZ) 570 (Revised)

ISA (NZ) 701

auditor attention and was of most significance in the audit is likely to be of interest to intended users.

A43-A45. The relevance of the information for intended users is a consideration for the auditor in determining what to include in the description of a key audit matter. This may include whether the description would enable a better understanding of the audit and the auditor's judgements.

A44-A46. Relating a matter directly to the specific circumstances of the entity may also help to minimise the potential that such descriptions become overly standardised and less useful over time. For example, certain matters may be determined as key audit matters in a particular industry across a number of entities due to the circumstances of the industry or the underlying complexity in financial reporting. In describing why the auditor considered the matter to be one of most significance, it may be useful for the auditor to highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgements made in the financial statements of the current period) in order to make the description more relevant for intended users. This also may be important in describing a key audit matter that recurs over periods.

A45-A47. The description may also make reference to the principal considerations that led the auditor, in the circumstances of the audit, to determine the matter to be one of most significance, for example:

- Economic conditions that affected the auditor's ability to obtain audit evidence, for example illiquid markets for certain financial instruments.
- New or emerging accounting policies, for example entity-specific or industry-specific matters on which the engagement team consulted within the firm.
- Changes in the entity's strategy or business model that had a material effect on the financial statements.

How the Matter Was Addressed in the Audit (Ref: Para. 13(b))

A46-A48. The amount of detail to be provided in the auditor's report to describe how a key audit matter was addressed in the audit is a matter of professional judgement. In accordance with paragraph 13(b), the auditor may describe:

- Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement;
- A brief overview of procedures performed;
- An indication of the outcome of the auditor's procedures; or
- Key observations with respect to the matter,

or some combination of these elements.

Law or regulation may prescribe a specific form or content for the description of a key audit matter, or may specify the inclusion of one or more of these elements.

A47-A49. In order for intended users to understand the significance of a key audit matter in the context of the audit of the financial statements as a whole, as well as the relationship between key audit matters and other elements of the auditor's report, including the

ISA (NZ) 701

auditor's opinion, care may be necessary so that language used in the description of a key audit matter:

- Does not imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the financial statements.
- Relates the matter directly to the specific circumstances of the entity, while avoiding generic or standardised language.
- Takes into account how the matter is addressed in the related disclosure(s) in the financial statements, if any.
- Does not contain or imply discrete opinions on separate elements of the financial statements.

A48-A50. Describing aspects of the auditor's response or approach to a matter, in particular when the audit approach required significant tailoring to the facts and circumstances of the entity, may assist intended users in understanding unusual circumstances and significant auditor judgement required to address the risk of material misstatement. In addition, the audit approach in a particular period may have been influenced by entity-specific circumstances, economic conditions, or industry developments. It may also be useful for the auditor to make reference to the nature and extent of communications with those charged with governance about the matter.

A49-A51. For example, in describing the auditor's approach to an accounting estimate that has been identified as having high estimation uncertainty, such as the valuation of complex financial instruments, the auditor may wish to highlight that the auditor employed or engaged an auditor's expert. Such a reference to the use of an auditor's expert does not reduce the auditor's responsibility for the opinion on the financial statements and is therefore not inconsistent with paragraphs 14–15 of ISA (NZ) 620.³⁶

A50-A52. There may be challenges in describing the auditor's procedures, particularly in complex, judgemental areas of the audit. In particular, it may be difficult to summarise the procedures performed in a succinct way that adequately communicates the nature and extent of the auditor's response to the assessed risk of material misstatement, and the significant auditor judgements involved. Nonetheless, the auditor may consider it necessary to describe certain procedures performed to communicate how the matter was addressed in the audit. Such description may typically be at a high level, rather than include a detailed description of procedures.

A51-A53. As noted in paragraph A46, the auditor may also provide an indication of the outcome of the auditor's response in the description of the key audit matter in the auditor's report. However, if this is done, care is needed to avoid the auditor giving the impression that the description is conveying a separate opinion on an individual key audit matter or that in any way may call into question the auditor's opinion on the financial statements as a whole.

³⁶ ISA (NZ) 620, *Using the Work of an Auditor's Expert*

ISA (NZ) 701

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report (Ref: Para. 14)

~~A52-A54.~~ Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter. For example, law or regulation may specifically prohibit any public communication that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (e.g., matters that are or appear to be related to money laundering).

~~A53-A55.~~ As indicated by paragraph 14(b), it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report. This is because there is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the judgement not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.

~~A54-A56.~~ [Amended by the NZAuASB].

NZA~~54~~56.1 The determination not to communicate a key audit matter takes into account the facts and circumstances related to the matter. Communication with management and those charged with governance helps the auditor understand management's views about the significance of the adverse consequences that may arise as a result of communicating about a matter. In particular, communication with management and those charged with governance helps to inform the auditor's judgement in determining whether to communicate the matter by:

- Assisting the auditor in understanding why the matter has not been publicly disclosed by the entity (e.g., if law, regulation or certain financial reporting frameworks permit delayed disclosure or non-disclosure of the matter) and management's views as to the adverse consequences, if any, of disclosure. Management may draw attention to certain aspects in law or regulation or other authoritative sources that may be relevant to the consideration of adverse consequences (e.g., such aspects may include harm to the entity's commercial negotiations or competitive position). However, management's views about the adverse consequences alone do not alleviate the need for the auditor to determine whether the adverse consequences would reasonably be expected to outweigh the public interest benefits of communication in accordance with paragraph 14(b).
- Highlighting whether there have been any communications with applicable regulatory, enforcement or supervisory authorities in relation to the matter, in particular whether such discussions would appear to support management's assertion as to why public disclosure about the matter is not appropriate.
- Enabling the auditor, where appropriate, to encourage management and those charged with governance to make public disclosure of relevant information about the matter. In particular, this may be possible if the concerns of management and those charged with governance about communicating are limited to specific aspects relating to the matter, such that certain information about the matter may be less sensitive and could be communicated.

ISA (NZ) 701

The auditor also may consider it necessary to obtain a written representation from those charged with governance as to why public disclosure about the matter is not appropriate, including the view of those charged with governance about the significance of the adverse consequences that may arise as a result of such communication.

~~A55-A57.~~ It may also be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements³⁷. In addition, the auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. Such communication may also be useful to inform the auditor's consideration of the adverse consequences that may arise from communicating about the matter.

~~A56-A58.~~ The issues considered by the auditor regarding a decision to not communicate a matter are complex and involve significant auditor judgement. Accordingly, the auditor may consider it appropriate to obtain legal advice.

Form and Content of the Key Audit Matters Section in Other Circumstances (Ref: Para. 16)

~~A57-A59.~~ The requirement in paragraph 16 applies in three circumstances:

- (i) The auditor determines in accordance with paragraph 10 that there are no key audit matters (see paragraph A59).
- (ii) The auditor determines in accordance with paragraph 14 that a key audit matter will not be communicated in the auditor's report and no other matters have been determined to be key audit matters.
- (iii) The only matters determined to be key audit matters are those communicated in accordance with paragraph 15.

~~A58-A60.~~ The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

Key Audit Matters

[Except for the matter described in the *Basis for Qualified (Adverse) Opinion* section or *Material Uncertainty Related to Going Concern* section,] We have determined that there are no [other] key audit matters to communicate in our report.

~~A59-A61.~~ [Amended by the NZAuASB].

NZA~~59~~61.1 The determination of key audit matters involves making a judgement about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a FMC reporting entity considered to have a higher level of public accountability would not

³⁷ For example, except for certain specified circumstances, paragraph R114.2 of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* does not permit the use or disclosure of information in respect of which the duty of confidentiality applies. As one of the exceptions, paragraph R114.3 of Professional and Ethical Standard 1 permits the assurance practitioner to disclose or use confidential information where there is a legal or professional duty or right to do so. Paragraph 114.3 A1(b)(iv) of Professional and Ethical Standard 1 explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

ISA (NZ) 701

determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a FMC reporting entity considered to have a higher level of public accountability that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention.

Communication with Those Charged with Governance (Ref: Para. 17)

~~A60-A62.~~ ISA (NZ) 260 (Revised) requires the auditor to communicate with those charged with governance on a timely basis.³⁸ The appropriate timing for communications about key audit matters will vary with the circumstances of the engagement. However, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings. Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time the financial statements are being finalised for issuance.

~~A61-A63.~~ Communication with those charged with governance enables them to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report, and provides them with an opportunity to obtain further clarification where necessary. The auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate this discussion. Communication with those charged with governance recognises their important role in overseeing the financial reporting process, and provides the opportunity for those charged with governance to understand the basis for the auditor's decisions in relation to key audit matters and how these matters will be described in the auditor's report. It also enables those charged with governance to consider whether new or enhanced disclosures may be useful in light of the fact that these matters will be communicated in the auditor's report.

~~A62-A64.~~ The communication with those charged with governance required by paragraph 17(a) also addresses the extremely rare circumstances in which a matter determined to be a key audit matter is not communicated in the auditor's report (see paragraphs 14 and A54).

~~A63-A65.~~ The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

Documentation (Ref: Para. 18)

~~A64-A66.~~ Paragraph 8 of ISA (NZ) 230 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other things, significant professional judgements. In the context of key audit matters, these professional judgements include the determination, from

³⁸ ISA (NZ) 260 (Revised), paragraph 234

ISA (NZ) 701

the matters communicated with those charged with governance, of the matters that required significant auditor attention, as well as whether or not each of those matters is a key audit matter. The auditor's judgements in this regard are likely to be supported by the documentation of the auditor's communications with those charged with governance and the audit documentation relating to each individual matter (see paragraph A39), as well as certain other audit documentation of the significant matters arising during the audit (e.g., a completion memorandum). However, this ISA (NZ) does not require the auditor to document why other matters communicated with those charged with governance were not matters that required significant auditor attention.

ISA (NZ) 701

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 701.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

~~ISA (NZ) 701 includes transitional provisions for the reporting of key audit matters. The auditor of a FMC reporting entity considered to have a higher level of public accountability, other than a listed issuer, is only required to report key audit matters for the audits of financial statements for periods ending on or after 31 December 2018. [Ref: Para NZ6.1]~~

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

References to “management” and “those charged with governance” have been amended in the ISAs (NZ) because those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.

References to “listed entitiespublicly traded entities” have been amended to “FMC reporting entities considered to have a higher level of public accountability”. Paragraphs where references to “listed entitiespublicly traded entities” have been amended to refer to FMC reporting entities considered to have a higher level of public accountability have been labelled as NZ paragraphs.

~~References to “management” and “those charged with governance” have been amended in the ISAs (NZ) because those charged with governance generally have responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.~~

Compliance with this ISA (NZ) enables compliance with ISA 701.

Comparison with Australian Auditing Standards

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*.

ASA 701 conforms to ISA 701.

The equivalent requirements and related application and other explanatory material included in ISA 701 in respect of “relevant ethical requirements”, have been included in Auditing Standard,

ISA (NZ) 701

ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements. There is no international equivalent to ASA 102.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 701 <i>Communicating Key Audit Matters in the Independent Auditor's Report</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 705 (REVISED)

Modifications to the Opinion in the Independent Auditor's Report ~~(ISA (NZ) 705 (Revised))~~

~~This Standard was issued on 1 October 2015 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 28 October 2015.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods ending on or after 15 December 2016. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 705 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 705 *Modifications to the opinion in the Independent Auditor's Report*.~~

~~This compilation was prepared in October 2024 and incorporates amendments up to and including November 2023.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 705 (Revised) issued by the External Reporting Board in October 2015.

ISA (NZ) 705 (Revised)

COPYRIGHT

© External Reporting Board (“XRB”) 2015

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927292-85-3

ISA (NZ) 705 (Revised)

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 705 (Revised) issued by the External Reporting Board in October 2015 (as amended to November 2023).

The revision of ISA (NZ) 705 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board ("IAASB"). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 705 (Revised)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 705 (REVISED)

MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraphs
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1
Types of Modified Opinions	2
Effective Date	3–NZ3.1
Objective	4
Definitions	5
Requirements	
Circumstances When a Modification to the Auditor's Opinion Is Required	6
Determining the Type of Modification to the Auditor's Opinion	7–15
Form and Content of the Auditor's Report When the Opinion Is Modified	16–29
Communication with Those Charged with Governance	30
Application and Other Explanatory Material	
Types of Modified Opinions	A1
Circumstances When a Modification to the Auditor's Opinion Is Required	A2–A12
Determining the Type of Modification to the Auditor's Opinion.....	A13–A16
Form and Content of the Auditor's Report When the Opinion Is Modified	A17–A26
Communication with Those Charged with Governance	A27
Appendix: Illustrations of Auditor's Reports with Modifications to the Opinion	
<u>Accompanying Attachment: Conformity to the International Standards on Auditing (Revised)</u>	

International Standard on Auditing (New Zealand) (ISA (NZ)) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

ISA (NZ) 705 (Revised)

ISA (NZ) 705 (Revised)

History of Amendments

Table of pronouncements – ISA (NZ) 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report*

This table lists the pronouncements establishing and amending ISA (NZ) 705 (Revised).

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 705 (Revised)	<u>October 2025</u> <u>September 2015</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for audits of historical financial statements for periods ending on or after 15 December 2016.</u>
~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1~~	~~June 2020~~	~~Effective on 15 July 2020.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised).~~	~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~
~~Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards~~	~~May 2023~~	~~Mandatory date of 1 January 2023.~~
~~Narrow Scope Amendments to ISAs (NZ) due to Public Interest Entity Revisions~~	~~November 2023~~	~~Mandatory date of 15 December 2024.~~

Table of Amended Paragraphs in ISA (NZ) 705 (Revised)		
Paragraph affected	How affected	By...[date]
Appendix	Amended	~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]~~
~~A10, Footnote 1, Appendix [NZ] Illustration 1, 2, 3, 4, 5~~	~~Amended~~	~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]~~
~~Illustrative reports~~	~~Amended~~	~~Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards [May 2023]~~

ISA (NZ) 705 (Revised)

Table of Amended Paragraphs in ISA (NZ) 705 (Revised)		
Appendix	Amended	Narrow Scope Amendments to ISAs (NZ) due to Public Interest Entity Revisions [November 2023]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 705 (Revised)

Introduction**Scope of this ISA (NZ)**

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ISA (NZ) 700 (Revised),² the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. This ISA (NZ) also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion. In all cases, the reporting requirements in ISA (NZ) 700 (Revised) apply, and are not repeated in this ISA (NZ) unless they are explicitly addressed or amended by the requirements of this ISA (NZ).

Types of Modified Opinions

2. This ISA (NZ) establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:
 - (a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
 - (b) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial statements. (Ref: Para. A1)

Effective Date

3. ~~This ISA (NZ) is effective for audits of financial statements for periods ending on or after 15 December 2016. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ3.1 This ~~ISA (NZ) Standard~~ ^{supersedes} ~~repeals~~ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* issued in October 2015.

Objective

4. The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:
 - (a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Definitions

5. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgement:

² ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

ISA (NZ) 705 (Revised)

- (i) Are not confined to specific elements, accounts or items of the financial statements;
 - (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
 - (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.
- (b) Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion on the financial statements.

Requirements**Circumstances When a Modification to the Auditor's Opinion Is Required**

6. The auditor shall modify the opinion in the auditor's report when:
- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (Ref: Para. A2–A7)
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: Para. A8–A12)

Determining the Type of Modification to the Auditor's Opinion*Qualified Opinion*

7. The auditor shall express a qualified opinion when:
- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion

9. The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
10. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is

ISA (NZ) 705 (Revised)

not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement

11. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.
12. If management refuses to remove the limitation referred to in paragraph 11 of this ISA (NZ), the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity,³ and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
 - (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
 - (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)
 - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. (Ref. Para. A14)
14. If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

15. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report⁴ in these

³ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

⁴ ISA (NZ) 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, deals with circumstances where the auditor is engaged to express a separate opinion on one or more specific elements, accounts or items of a financial statement.

ISA (NZ) 705 (Revised)

circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. (Ref: Para. A16)

Form and Content of the Auditor's Report When the Opinion Is Modified*Auditor's Opinion*

16. When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section. (Ref: Para. A17–A19)

Qualified Opinion

17. When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:
 - (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
 - (b) When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion. (Ref: Para. A20)

Adverse Opinion

18. When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:
 - (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
 - (b) When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

Disclaimer of Opinion

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:
 - (a) State that the auditor does not express an opinion on the accompanying financial statements;
 - (b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
 - (c) Amend the statement required by paragraph 24(b) of ISA (NZ) 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

ISA (NZ) 705 (Revised)

(d) [Amended by the NZAuASB].

NZ19(d)(1) State in the Basis for Disclaimer of Opinion section that the auditor is unable to conclude on the appropriateness of ~~management's~~ those charged with governance's use of the going concern basis of accounting in the preparation of the financial statements 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.

Basis for Opinion

20. When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by ISA (NZ) 700 (Revised): (Ref: Para. A21)
 - (a) Amend the heading "Basis for Opinion" required by paragraph 28 of ISA (NZ) 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and
 - (b) Within this section, include a description of the matter giving rise to the modification.
21. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para. A22)
22. If there is a material misstatement of the financial statements that relates to qualitative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.
23. If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:
 - (a) Discuss the non-disclosure with those charged with governance;
 - (b) Describe in the Basis for Opinion section the nature of the omitted information; and
 - (c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: Para. A23)
24. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.
25. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of ISA (NZ) 700 (Revised) to include the word "qualified" or "adverse", as appropriate.
26. When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include the elements required by paragraphs 28(b) and 28(d) of ISA (NZ) 700 (Revised). Those elements are:
 - (a) A reference to the section of the auditor's report where the auditor's responsibilities are described; and

ISA (NZ) 705 (Revised)

- (b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

27. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof. (Ref: Para. A24)

Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements

28. When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by paragraphs 39–41 of ISA (NZ) 700 (Revised) to include only the following: (Ref: Para. A25)

- (a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with International Standards on Auditing (New Zealand) and to issue an auditor's report;
- (b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- (c) [Amended by the NZAuASB].

NZ28(c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) and NZ28.1 of ISA (NZ) 700 (Revised).

Considerations When the Auditor Disclaims an Opinion on the Financial Statements

29. Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include [a section on:](#)

- (a) ~~a~~ Key Audit Matters ~~section~~ in accordance with ISA (NZ) 701⁵;
 - (b) ~~-~~ Going Concern in accordance with ISA (NZ) 570⁶;
 - (c) ~~Material Uncertainty Related to Going Concern in accordance with ISA 570; and~~
 - ~~(a)(d) or an~~ Other Information ~~section~~ in accordance with ISA (NZ) 720 (Revised).^{7,8}
- (Ref: Para. A26)

Communication with Those Charged with Governance

~~29.~~30. When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification. (Ref: Para. A27)

⁵ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraphs 11–13

⁶ ISA (NZ) 570, *Going Concern*, paragraph 34

⁷ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph A54
ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraphs 11–13

⁸ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph A54

ISA (NZ) 705 (Revised)

Application and Other Explanatory Material**Types of Modified Opinions** (Ref: Para. 2)

- A1. The table below illustrates how the auditor's judgement about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

<i>Nature of Matter Giving Rise to the Modification</i>	<i>Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i>	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Circumstances When a Modification to the Auditor's Opinion Is Required*Nature of Material Misstatements* (Ref: Para. 6(a))

- A2. ISA (NZ) 700 (Revised) requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement.⁹ This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with ISA (NZ) 450.¹⁰
- A3. ISA (NZ) 450 defines a misstatement as a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial statements may arise in relation to:
- (a) The appropriateness of the selected accounting policies;
 - (b) The application of the selected accounting policies; or
 - (c) The appropriateness or adequacy of disclosures in the financial statements.

Appropriateness of the Selected Accounting Policies

- A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise, for example, when:
- (a) The selected accounting policies are not consistent with the applicable financial reporting framework;
 - (b) The financial statements do not correctly describe an accounting policy relating to a significant item in the statement of financial position, the statement of

⁹ ISA (NZ) 700 (Revised), paragraph 11

¹⁰ ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

ISA (NZ) 705 (Revised)

comprehensive income, the statement of changes in equity or the statement of cash flows; or

- (c) The financial statements do not represent or disclose the underlying transactions and events in a manner that achieves fair presentation.

A5. Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial statements may arise when the entity has not complied with these requirements.

Application of the Selected Accounting Policies

A6. In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:

- (a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or
- (b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

Appropriateness or Adequacy of Disclosures in the Financial Statements

A7. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:

- (a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;
- (b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or
- (c) The financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Paragraph [A13a-A18](#) of ISA (NZ) 450 provides further examples of material misstatements in qualitative disclosures that may arise.

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))

A8. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:

- (a) Circumstances beyond the control of the entity;
- (b) Circumstances relating to the nature or timing of the auditor's work; or
- (c) Limitations imposed by management.

A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of [risks](#)

ISA (NZ) 705 (Revised)

of material misstatement due to fraud risks and consideration of engagement continuance.

A10. Examples of circumstances beyond the control of the entity include when:

- The entity's accounting records have been destroyed.
- The accounting records of a component for which further audit procedures are determined to be necessary for the purposes of the group audit have been seized indefinitely by governmental authorities.

A11. Examples of circumstances relating to the nature or timing of the auditor's work include when:

- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

A12. Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include when:

- Management prevents the auditor from observing the counting of the physical inventory.
- Management prevents the auditor from requesting external confirmation of specific account balances.

Determining the Type of Modification to the Auditor's Opinion

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement (Ref: Para. 13(b)(i)–14)

A13. The practicality of withdrawing from the audit may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation within the Basis for Disclaimer of Opinion section prior to withdrawing.

A14. In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor that is appointed to audit the financial statements of public sector entities. It may also be the case where the auditor is appointed to audit the financial statements covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the audit of those financial statements or before the end of that period, respectively. The auditor may also consider it necessary to include an Other Matter paragraph in the auditor's report.¹¹

¹¹ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph A10

ISA (NZ) 705 (Revised)

A15. When the auditor concludes that withdrawal from the audit is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the auditor to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion (Ref: Para. 15)

A16. The following are examples of reporting circumstances that would not contradict the auditor's adverse opinion or disclaimer of opinion:

- The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under a different financial reporting framework.¹²
- The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position (see ISA (NZ) 510¹³). In this case, the auditor has not expressed a disclaimer of opinion on the financial statements as a whole.

Form and Content of the Auditor's Report When the Opinion Is Modified*Illustrative Auditor's Reports* (Ref: Para. 16)

A17. Illustrations 1 and 2 in the Appendix contain auditor's reports with qualified and adverse opinions, respectively, as the financial statements are materially misstated.

A18. Illustration 3 in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial statements. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. In each of the latter two cases, the possible effects on the financial statements of the inability are both material and pervasive. The Appendices to other ISAs (NZ) that include reporting requirements, including ISA (NZ) 570 (Revised),¹⁴ also include illustrations of auditor's reports with modified opinions.

Auditor's Opinion (Ref: Para. 16)

A19. Amending this heading makes it clear to the user that the auditor's opinion is modified and indicates the type of modification.

Qualified Opinion (Ref: Para. 17)

A20. When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the Opinion section as these are not sufficiently clear or forceful.

Basis for Opinion (Ref: Para. 20, 21, 23, 27)

A21. Consistency in the auditor's report helps to promote users' understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording

¹² See paragraph A31 of ISA (NZ) 700 (Revised) for a description of this circumstance.

¹³ ISA (NZ) 510, *Initial Audit Engagements—Opening Balances*, paragraph 10

¹⁴—ISA (NZ) 570 (Revised), *Going Concern*

ISA (NZ) 705 (Revised)

of a modified opinion and in the description of the reasons for the modification may not be possible, consistency in both the form and content of the auditor's report is desirable.

- A22. An example of the financial effects of material misstatements that the auditor may describe within the Basis for Opinion section in the auditor's report is the quantification of the effects on income tax, income before taxes, net income and equity if inventory is overstated.
- A23. Disclosing the omitted information within the Basis for Opinion section would not be practicable if:
- (a) The disclosures have not been prepared by management or the disclosures are otherwise not readily available to the auditor; or
 - (b) In the auditor's judgement, the disclosures would be unduly voluminous in relation to the auditor's report.
- A24. An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements.

Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements (Ref: Para. 28)

A25. [Amended by the NZAuASB].

- NZA25.1 When the auditor disclaims an opinion on the financial statements, the following statements are better positioned within the Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report, as illustrated in Illustrations 4–5 of the Appendix to this ISA (NZ):
- The statement required by paragraph 28(a) of ISA (NZ) 700 (Revised), amended to state that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with ISAs (NZ); and
 - The statement required by paragraph 28(c) and NZ 28.1 of ISA (NZ) 700 (Revised) about independence and other ethical responsibilities.

Considerations When the Auditor Disclaims an Opinion on the Financial Statements (Ref: Para. 29)

- A26. Providing the reasons for the auditor's inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial statements and may further guard against inappropriate reliance on them. However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial statements as a whole. Similarly, it would not be appropriate to include an Other Information section in accordance with ISA (NZ) 720 (Revised) addressing the auditor's consideration of the consistency of the other information with the financial statements. Accordingly, paragraph 29 of this ISA (NZ) prohibits a [Key](#)

ISA (NZ) 705 (Revised)

~~Audit Matters section or an Other Information-certain~~ sections from being included in the auditor's report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation to communicate key audit matters or to report on other information.

Communication with Those Charged with Governance (Ref: Para. 30)

A27. Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion and the wording of the modification enables:

- (a) The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);
- (b) The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and
- (c) Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

ISA (NZ) 705 (Revised)**Appendix**

(Ref: Para. A17–A18, A25)

Illustrations of Auditor's Reports with Modifications to the Opinion

- [NZ] Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- [NZ] Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the consolidated financial statements.
- [NZ] Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate.
- [NZ] Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements.
- [NZ] Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

ISA (NZ) 705 (Revised)

[NZ] Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

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

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)¹ does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.²
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit. Professional and Ethical Standard 1 includes independence requirements that are applicable to audits of financial statements of public interest entities and requires the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (Revised).
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements³**Qualified Opinion**

We have audited the financial statements of [ABC Company (the Company)], which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and

¹ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

² ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*

³ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

ISA (NZ) 705 (Revised)

notes to the financial statements, including material accounting policy information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards – IFRS Accounting Standards](#) (NZ IFRS).

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realisable value but has stated them solely at cost, which constitutes a departure from NZ IFRS. The Company's records indicate that, had management stated the inventories at the lower of cost and net realisable value, an amount of xxx would have been required to write the inventories down to their net realisable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the

ISA (NZ) 705 (Revised)

context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Directors' Responsibilities for the Financial Statements⁴

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.

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

[Auditor Address]

[Date]

⁴ Throughout the illustrative auditor's reports, the term director may need to be replaced by another term that is appropriate in the context of the legal framework of the entity.

ISA (NZ) 705 (Revised)

[NZ] Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

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

- Audit of a complete set of consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit. Professional and Ethical Standard 1 includes independence requirements that are applicable to audits of financial statements of public interest entities and requires the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- ISA (NZ) 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁵**Adverse Opinion**

We have audited the consolidated financial statements of [ABC Company and its subsidiaries (the Group)], which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in

⁵ The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

ISA (NZ) 705 (Revised)

equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not present fairly (or *do not give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under NZ IFRS, the Company should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

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

Key Audit Matters

ISA (NZ) 705 (Revised)

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

Directors' Responsibilities for the Consolidated Financial Statements⁶

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].

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

[Auditor Address]

[Date]

⁶ Or other terms that are appropriate in the context of the legal framework of the entity.

ISA (NZ) 705 (Revised)

[NZ] Illustration 3 – Qualified Opinion due to the Auditor’s Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

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

- Audit of a complete set of consolidated financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit. Professional and Ethical Standard 1 includes independence requirements that are applicable to audits of financial statements of public interest entities and requires the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁷**Qualified Opinion**

We have audited the consolidated financial statements of [ABC Company and its subsidiaries (the Group)], which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in

⁷ The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

ISA (NZ) 705 (Revised)

equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Qualified Opinion

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

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

ISA (NZ) 705 (Revised)**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Directors' Responsibilities for the Consolidated Financial Statements⁸

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.

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

[Auditor Address]

[Date]

⁸ Or other terms that are appropriate in the context of the legal framework of the entity

ISA (NZ) 705 (Revised)

[NZ] Illustration 4 – Disclaimer of Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

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

- Audit of a complete set of consolidated financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA (NZ) 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the entity’s net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements (i.e., a disclaimer of opinion is appropriate).
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- A more limited description of the auditor’s responsibilities section is required.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements⁹**Disclaimer of Opinion**

We were engaged to audit the consolidated financial statements of [ABC Company and its subsidiaries (the Group)], which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

⁹ The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

ISA (NZ) 705 (Revised)

Basis for Disclaimer of Opinion

The Group's investment in its joint venture XYZ Company is carried at xxx on the Group's consolidated statement of financial position, which represents over 90% of the Group's net assets as at December 31, 20X1. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the consolidated statement of changes in equity and the consolidated cash flow statement.

We are unable to conclude on the appropriateness of the directors's use of the going concern basis of accounting in the preparation of the consolidated financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Directors' Responsibilities for the Consolidated Financial Statements¹⁰

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing (New Zealand) and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

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

[Auditor Address]

[Date]

¹⁰ Or other terms that are appropriate in the context of the legal framework of the entity

ISA (NZ) 705 (Revised)

[NZ] Illustration 5 – Disclaimer of Opinion due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised), does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the entity’s inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- A more limited description of the auditor’s responsibilities section is required.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements¹¹**Disclaimer of Opinion**

We were engaged to audit the financial statements of [ABC Company (the Company)], which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held

¹¹ The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

ISA (NZ) 705 (Revised)

at December 31, 20X0 and 20X1, which are stated in the statements of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerised accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

We are unable to conclude on the appropriateness of the directors's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Directors' Responsibilities for the Financial Statements¹²

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing (New Zealand) and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

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

[Auditor Address]

[Date]

¹² Or other terms that are appropriate in the context of the legal framework of the entity

ISA (NZ) 705 (Revised)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 705 (Revised).

Conformity with International Standards on Auditing

This ISA (NZ) Standard conforms to International Standard on Auditing (ISA) 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix "NZ".

The following requirement is additional to ISA 705 (Revised):

- When the auditor disclaims an opinion on the financial statements, the auditor shall include a statement as to the existence of any relationship which the auditor has with, or interests which the auditor has in, the entity, as required by ISA (NZ) 700 (Revised).
[Ref: Para. NZ 28 (c)]

This ISA (NZ) incorporates terminology and definitions used in New Zealand. References to "management" and "those charged with governance" have been amended in the ISAs (NZ) because those charged with governance generally have the responsibility for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements.

Compliance with this ISA (NZ) enables compliance with ISA 705 (Revised).

Comparison with Australian Auditing Standards

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

ASA 705 conforms to ISA 705.

The equivalent requirements and related application and other explanatory material included in ISA 705 in respect of "relevant ethical requirements", have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

ISA (NZ) 705 (Revised)

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 705 (Revised)</u> <u>Modifications to the Opinion in the Independent Auditor's Report</u>

<u>Principal or amendment</u>	<u>Principal</u>

<u>Consolidated version</u>	<u>No</u>

<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>

<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>

<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>

<u>Administering agency</u>	<u>External Reporting Board</u>

<u>Date made</u>	<u>24 October 2025</u>

<u>Publication date</u>	<u>30 October 2025</u>

<u>Notification date</u>	<u>30 October 2025</u>

<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>

<u>End date</u>	<u>Not applicable</u>

<u>Consolidation as at date</u>	<u>Not applicable</u>

<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 706 (REVISED)

Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report **ISA (NZ) 706 (Revised)**

~~This Standard was issued on 1 October 2015 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 28 October 2015.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods ending on or after 15 December 2016. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 706 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including May 2023.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 706 (Revised) issued by the External Reporting Board in October 2025.

ISA (NZ) 706 (Revised)**COPYRIGHT**

© External Reporting Board (“XRB”) 2015

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927292-86-0

ISA (NZ) 706 (Revised)**Explanatory note**

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 706 (Revised) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 706 (Revised) issued by the External Reporting Board in October 2015 (as amended to May 2023).

The revision of ISA (NZ) 706 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board ("IAASB"). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 706 (Revised)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 706 (REVISED)

**EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE
INDEPENDENT AUDITOR'S REPORT**

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1–4
Effective Date	5-NZ5.1
Objective	6
Definitions	7
Requirements	
Emphasis of Matter Paragraphs in the Auditor's Report	8–9
Other Matter Paragraphs in the Auditor's Report	10–11
Communication with Those Charged with Governance	12
Application and Other Explanatory Material	
The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report	A1–A3
Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary	A4–A6
Including an Emphasis of Matter Paragraph in the Auditor's Report	A7–A8
Other Matter Paragraphs in the Auditor's Report	A9–A15
Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report	A16–A17
Communication with Those Charged with Governance	A18
Appendix 1: List of ISAs (NZ) Containing Requirements for Emphasis of Matter Paragraphs	
Appendix 2: List of ISAs (NZ) Containing Requirements for Other Matter Paragraphs	
Appendix 3: Illustration of an Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph	

ISA (NZ) 706 (Revised)

Appendix 4: Illustration of an Auditor's Report Containing a Qualified Opinion
Due to a Departure from the Applicable Financial Reporting Framework and
that Includes an Emphasis of Matter Paragraph

~~Accompanying Attachment: Conformity to the International Standards on Auditing
(Revised)~~

International Standard on Auditing (New Zealand) (ISA (NZ)) 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>, should be read in conjunction with ISA (NZ) 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)</i>.

ISA (NZ) 706 (Revised)

History of Amendments

Table of pronouncements – ISA (NZ) 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

This table lists the pronouncements establishing and amending ISA (NZ) 706 (Revised).

Pronouncements	Date approved	<u>Application Effective date</u>
International Standard on Auditing (New Zealand) 706 (Revised)	<u>October 2025</u> <u>September</u> <u>2015</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for audits of historical financial statements for periods ending on or after 15 December 2016.</u>
<u>Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1</u>	<u>June 2020</u>	<u>Effective for audits of financial statements for periods beginning on or after 15 July 2020.</u>
<u>Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)</u>	<u>June 2022</u>	<u>Effective for audits of group financial statements for periods beginning on or after 15 December 2023.</u>
<u>Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards</u>	<u>May 2023</u>	<u>Mandatory date of 1 January 2023.</u>

Table of Amended Paragraphs in ISA (NZ) 706 (Revised)		
Paragraph affected	How affected	By...[date]
<u>Appendix 3, 4</u>	<u>Amended</u>	<u>Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]</u>
<u>Appendix 3, 4, Footnote 1</u>	<u>Amended</u>	<u>Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]</u>
<u>Appendix 3, 4</u>	<u>Amended</u>	<u>Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards [May 2023]</u>

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 706 (Revised)

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with additional communication in the auditor's report when the auditor considers it necessary to:
 - (a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
 - (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
2. ISA (NZ) 701² establishes requirements and provides guidance when the auditor determines key audit matters and communicates them in the auditor's report. When the auditor includes a Key Audit Matters section in the auditor's report, this ISA (NZ) addresses the relationship between key audit matters and any additional communication in the auditor's report in accordance with this ISA (NZ). (Ref: Para. A1–A3)
3. ISA (NZ) 570 (Revised)³ and ISA (NZ) 720 (Revised)⁴ establish requirements and provides guidance about communication in the auditor's report relating to going concern and other information, respectively.
4. Appendices 1 and 2 identify ISAs (NZ) that contain specific requirements for the auditor to include Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor's report. In those circumstances, the requirements in this ISA (NZ) regarding the form of such paragraphs apply. (Ref: Para. A4)

Effective Date

5. ~~This ISA (NZ) is effective for audits of financial statements for periods ending on or after 15 December 2016.~~ [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]
- NZ5.1 This ~~ISA (NZ) Standard~~ supersedes ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* issued in October 2015.

Objective

6. The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgement it is necessary to do so, by way of clear additional communication in the auditor's report, to:

² ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

³ ISA (NZ) 570 (Revised), *Going Concern*

⁴ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

ISA (NZ) 706 (Revised)

- (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or
- (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Definitions

7. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) **Emphasis of Matter paragraph** – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
 - (b) **Other Matter paragraph** – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Requirements**Emphasis of Matter Paragraphs in the Auditor's Report**

8. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (Ref: Para. A5–A6)
 - (a) The auditor would not be required to modify the opinion in accordance with ISA (NZ) 705 (Revised)⁵ as a result of the matter; and
 - (b) When ISA (NZ) 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A1–A3)
9. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:
 - (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";
 - (b) Include in the paragraph a clear reference to the matter being emphasised and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and
 - (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasised. (Ref: Para. A7–A8, A16–A17)

⁵ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

ISA (NZ) 706 (Revised)**Other Matter Paragraphs in the Auditor's Report**

10. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:
 - (a) This is not prohibited by law or regulation; and
 - (b) When ISA (NZ) 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A9–A14)
11. When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading. (Ref: Para. A15–A17)

Communication with Those Charged with Governance

12. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph. (Ref: Para. A18)

Application and Other Explanatory Material**The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report (Ref: Para. 2, 8(b))**

- A1. Key audit matters are defined in ISA (NZ) 701 as those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance, which include significant findings from the audit of the financial statements of the current period.⁶ Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgement in the audited financial statements. When ISA (NZ) 701 applies, the use of Emphasis of Matter paragraphs is not a substitute for a description of individual key audit matters.
- A2. Matters that are determined to be key audit matters in accordance with ISA (NZ) 701 may also be, in the auditor's judgement, fundamental to users' understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with ISA (NZ) 701, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including

⁶ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16

ISA (NZ) 706 (Revised)

additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements.

- A3. There may be a matter that is not determined to be a key audit matter in accordance with ISA (NZ) 701 (i.e., because it did not require significant auditor attention), but which, in the auditor's judgement, is fundamental to users' understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with this ISA (NZ).

Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary (Ref: Para. 4, 8)

- A4. Appendix 1 identifies ISAs (NZ) that contain specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances. These circumstances include:
- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
 - To alert users that the financial statements are prepared in accordance with a special purpose framework.
 - When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).⁷
- A5. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action, that is not an event or condition that may cast significant doubt on the entity's ability to continue as a going concern.
 - A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.⁸
 - Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
 - A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- A6. However, a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters.

Including an Emphasis of Matter Paragraph in the Auditor's Report (Ref: Para. 9)

- A7. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:

⁷ ISA (NZ) 560, *Subsequent Events*, paragraphs 12(b) and 16

⁸ ISA (NZ) 560, paragraph 6

ISA (NZ) 706 (Revised)

- (a) A modified opinion in accordance with ISA (NZ) 705 (Revised) when required by the circumstances of a specific audit engagement;
- (b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or
- (c) Reporting in accordance with ISA (NZ) 570 (Revised)⁹ ~~when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.~~

A8. Paragraphs A16–A17 provide further guidance on the placement of Emphasis of Matter paragraphs in particular circumstances.

Other Matter Paragraphs in the Auditor's Report (Ref: Para. 10–11)*Circumstances in Which an Other Matter Paragraph May Be Necessary**Relevant to Users' Understanding of the Audit*

- A9. ISA (NZ) 260 (Revised) requires the auditor to communicate with those charged with governance about the planned scope and timing of the audit, which includes communication about the significant risks identified by the auditor.¹⁰ Although matters relating to significant risks may be determined to be key audit matters, other planning and scoping matters (e.g., the planned scope of the audit, or the application of materiality in the context of the audit) are unlikely to be key audit matters because of how key audit matters are defined in ISA (NZ) 701. However, law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph.
- A10. In the rare circumstance where the auditor is unable to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive,¹¹ the auditor may consider it necessary to include an Other Matter paragraph in the auditor's report to explain why it is not possible for the auditor to withdraw from the engagement.

Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report

- A11. Law, regulation or generally accepted practice may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. When the Other Matter section includes more than one matter that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, it may be helpful to use different sub-headings for each matter.
- A12. An Other Matter paragraph does not deal with circumstances where the auditor has other reporting responsibilities that are in addition to the auditor's responsibility under the ISAs

⁹ ISA (NZ) 570 (Revised), paragraphs [22–23–34–38](#)

¹⁰ ISA (NZ) 260 (Revised), paragraph 15

¹¹ See paragraph 13(b)(ii) of ISA (NZ) 705 (Revised) for a discussion of this circumstance.

ISA (NZ) 706 (Revised)

(NZ) (see Other Reporting Responsibilities section in ISA (NZ) 700 (Revised)¹²), or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters.

Reporting on more than one set of financial statements

A13. An entity may prepare one set of financial statements in accordance with a general purpose framework (e.g., the appropriate accounting standards in New Zealand) and another set of financial statements in accordance with another general purpose framework (e.g., [International Financial Reporting Standards IFRS Accounting Standards](#)), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.

Restriction on distribution or use of the auditor's report

A14. Financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

Including an Other Matter Paragraph in the Auditor's Report

A15. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report (Ref: Para. 9, 11)

A16. The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgement as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with ISA (NZ) 700 (Revised). For example:

¹² ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 43–45

ISA (NZ) 706 (Revised)

Emphasis of Matter Paragraphs

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable,¹³ the auditor may consider it necessary to place the paragraph immediately following the [Basis of Opinion-Going Concern or Material Uncertainty Related to Going Concern](#) section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgement as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also add further context to the heading "Emphasis of Matter", such as "Emphasis of Matter – Subsequent Event", to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

Other Matter Paragraphs

- When a Key Audit Matters section is presented in the auditor's report and an Other Matter paragraph is also considered necessary, the auditor may add further context to the heading "Other Matter", such as "Other Matter – Scope of the Audit", to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.
- When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section.
- When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.

NZA17. Appendix 3 is an illustration of the interaction between the Key Audit Matters section, an Emphasis of Matter paragraph and an Other Matter paragraph when all are presented in the auditor's report. The illustrative report in Appendix 4 includes an Emphasis of Matter paragraph in an auditor's report for an entity other than a FMC reporting entity considered to have a higher level of public accountability that contains a qualified opinion and for which key audit matters have not been communicated.

¹³ For example, as required by ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 19 and ISA (NZ) 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 14

ISA (NZ) 706 (Revised)**Communication with Those Charged with Governance (Ref. Para. 12)**

A18. The communication required by paragraph 12 enables those charged with governance to be made aware of the nature of any specific matters that the auditor intends to highlight in the auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary. Where the inclusion of an Other Matter paragraph on a particular matter in the auditor's report recurs on each successive engagement, the auditor may determine that it is unnecessary to repeat the communication on each engagement, unless otherwise required to do so by law or regulation.

Appendix 1

(Ref: Para. 4, A4)

List of ISAs (NZ) Containing Requirements for Emphasis of Matter Paragraphs

This appendix identifies paragraphs in other ISAs (NZ) that require the auditor to include an Emphasis of Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- ISA (NZ) 210, *Agreeing the Terms of Audit Engagements* – paragraph 19(b)
- ISA (NZ) 560, *Subsequent Events* – paragraphs 12(b) and 16
- ISA (NZ) 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* – paragraph 14

ISA (NZ) 706 (Revised)**Appendix 2**

(Ref: Para. 4)

List of ISAs (NZ) Containing Requirements for Other Matter Paragraphs

This appendix identifies paragraphs in other ISAs (NZ) that require the auditor to include an Other Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- ISA (NZ) 560, *Subsequent Events* – paragraphs 12(b) and 16
- ISA (NZ) 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraphs 13–14, 16–17 and 19
- ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* – paragraph 10(a)

ISA (NZ) 706 (Revised)

Appendix 3

(Ref: Para. A17)

[NZ] Illustration of an Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

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

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)¹ does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#) (NZ IFRS) (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgement, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

¹ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

ISA (NZ) 706 (Revised)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements²**Opinion**

We have audited the financial statements of [ABC Company (the Company)], which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Emphasis of Matter³

² The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

³ As noted in paragraph A16, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section based on the auditor's judgement as to the relative significance of the information included in the Emphasis of Matter paragraph.

ISA (NZ) 706 (Revised)

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Other Matter

The financial statements of ABC Company for the year ended December 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

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

Directors' Responsibilities for the Financial Statements⁴

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.

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

[Auditor Address]

[Date]

⁴ Throughout these illustrative auditor's reports, the term directors' may need to be replaced by another term that is appropriate in the context of the legal framework of the entity.

Appendix 4

(Ref: Para. A8)

[NZ] Illustration of an Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter Paragraph

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgement, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has not obtained any other information prior to the date of the auditor's report.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

ISA (NZ) 706 (Revised)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements¹**Qualified Opinion**

We have audited the financial statements of [ABC Company (the Company)], which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards–IFRS Accounting Standards](#) (NZ IFRS).

Basis for Qualified Opinion

The Company's short-term marketable securities are carried in the statement of financial position at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from NZ IFRS. The Company's records indicate that had management marked the marketable securities to market, the Company would have recognised an unrealised loss of xxx in the statement of comprehensive income for the year. The carrying amount of the securities in the statement of financial position would have been reduced by the same amount at December 31, 20X1, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Going Concern

[In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation](#)

¹ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

ISA (NZ) 706 (Revised)

of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Emphasis of Matter – Effects of a Fire

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

Directors' Responsibilities for the Financial Statements²

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

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

[Auditor Address]

[Date]

² Or other terms that are appropriate in the context of the legal framework of the entity

ISA (NZ) 706 (REVISED)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 706 (Revised).

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing (ISA) 706 (Revised) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 706.

Comparison with Australian Auditing Standards

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

ASA 706 conforms to ISA 706 (Revised).

The equivalent requirements and related application and other explanatory material included in ISA 706 in respect of “relevant ethical requirements”, have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

ISA (NZ) 706 (REVISED)

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (ISA) 706 (Revised) <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 710

Comparative Information – Corresponding Figures and Comparative Financial Statements (~~ISA (NZ) 710~~)

~~Effective for audits of historical financial statements for periods beginning on or after 1 September, 2011.~~

~~This Standard was issued by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 24(1)(b) of the Financial Reporting Act 1993. This Standard is a disallowable instrument for the purposes of the Legislation Act 2012.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including May 2023.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 710 issued by the External Reporting Board in July 2011.

COPYRIGHT

© External Reporting Board (“XRB”) 2011

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-1-927174-31-9

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 710 issued by the External Reporting Board in October 2015 (as amended to May 2023).

The revision of ISA (NZ) 710 is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 710

COMPARATIVE INFORMATION – CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS*Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

	Paragraphs
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1
The Nature of Comparative Information	2-3
Effective Date	4
Objectives	5
Definitions	6
Requirements	
Audit Procedures	7-9
Audit Reporting	10-19
Application and Other Explanatory Material	
Audit Procedures	A1
Auditor Reporting	A2-A13
Appendix: Illustrations of Auditors' Reports	
<u>Accompanying Attachment: Conformity to the International Standards on Auditing</u>	

International Standard on Auditing (New Zealand) (ISA (NZ)) 710, “*Comparative Information – Corresponding Figures and Comparative Financial Statements*” should be read in conjunction with ISA (NZ) 200, “*Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.”

ISA (NZ) 710

History of Amendments

Table of pronouncements – ISA (NZ) 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements*

This table lists the pronouncements establishing and amending ISA (NZ) 710.

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 710	<u>October 2025</u> ~~July 2011~~	<u>Periods beginning on or after 15 December 2026, refer commencement and application section.</u> ~~This ISA (NZ) is effective for audits of historical financial statements for periods beginning on or after 1 September 2011.~~
~~Amendments to the International Standards on Auditing (New Zealand) to Promote Improved Audit Quality~~	~~September 2013~~	~~Effective for audits of financial statements for periods ending on or after 31 December 2014.~~
~~Use of management and those charged with governance~~	~~December 2013~~	~~Effective for audits of financial statements for periods beginning on or after 1 July 2014.~~
~~Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update)~~	~~Feb 2014~~	~~Effective for assurance engagements relating to financial statements for periods beginning on or after 1 April 2014.~~
~~Amendments to the International Standards on Auditing (New Zealand) to Describe the Responsibilities of Those Charged with Governance~~	~~Sept 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016. Early adoption is permitted.~~
~~Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting)~~	~~September 2015~~	~~Effective for audits of financial statements for periods ending on or after 15 December 2016.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 Revised~~	~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~
~~Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards~~	~~May 2023~~	~~Mandatory date of 1 January 2023.~~

Table of Amended Paragraphs in ISA (NZ) 710

Paragraph affected	How affected	By...[date]

ISA (NZ) 710

Table of Amended Paragraphs in ISA (NZ) 710		
NZA7.1	Amended	Amendments to the International Standards on Auditing (New Zealand) to Promote Improved Audit Quality [September 2013]
Various	Amended	Use of management and those charged with governance [Dec 2013]
Appendix	Amended	Amendments to the Auditing and Assurance Standards: Omnibus Amendments (Legislative Update) [Feb 2014]
Appendix	Amended	Amendments to the International Standards on Auditing (New Zealand) to Describe the Responsibilities of Those Charged with Governance [Sept 2015]
A8, A13 14, 16, 19, Appendix	Inserted Amended	Conforming amendments to ISAs (NZ) and other pronouncements (Auditor Reporting) [Sept 2015]
Appendix Illustration 1,2,3,4 Footnote 10	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 Revised [June 2022]
Illustrative reports	Amended	Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards [May 2023]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating to comparative information in an audit of financial statements. When the financial statements of the prior period have been audited by a predecessor auditor or were not audited, the requirements and guidance in ISA (NZ) 510² regarding opening balances also apply.

The Nature of Comparative Information

2. The nature of the comparative information that is presented in an entity's financial statements depends on the requirements of the applicable financial reporting framework. There are two different broad approaches to the auditor's reporting responsibilities in respect of such comparative information: corresponding figures and comparative financial statements. The approach to be adopted is often specified by law or regulation but may also be specified in the terms of engagement.
3. The essential audit reporting differences between the approaches are:
 - (a) For corresponding figures, the auditor's opinion on the financial statements refers to the current period only; whereas
 - (b) For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.

This ISA (NZ) addresses separately the auditor's reporting requirements for each approach.

Effective Date

4. ~~4. This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~

NZ 4.1 This Standard repeals ISA (NZ) 710 Comparative Information – Corresponding Figures and Comparative Financial Statements issued in July 2011.

Objectives

5. The objectives of the auditor are:
 - (a) To obtain sufficient appropriate audit evidence about whether the comparative information included in the financial statements has been presented, in all material respects, in accordance with the requirements for comparative information in the applicable financial reporting framework; and
 - (b) To report in accordance with the auditor's reporting responsibilities.

Definitions

6. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:

² ISA (NZ) 510, *Initial Audit Engagements – Opening Balances*

ISA (NZ) 710

- (a) Comparative information – The amounts and disclosures included in the financial statements in respect of one or more prior periods in accordance with the applicable financial reporting framework.
- (b) Corresponding figures – Comparative information where amounts and other disclosures for the prior period are included as an integral part of the current period financial statements, and are intended to be read only in relation to the amounts and other disclosures relating to the current period (referred to as “current period figures”). The level of detail presented in the corresponding amounts and disclosures is dictated primarily by its relevance to the current period figures.
- (c) Comparative financial statements – Comparative information where amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor’s opinion. The level of information included in those comparative financial statements is comparable with that of the financial statements of the current period.

For purposes of this ISA (NZ), references to “prior period” should be read as “prior periods” when the comparative information includes amounts and disclosures for more than one period.

Requirements**Audit Procedures**

7. The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. For this purpose, the auditor shall evaluate whether:
 - (a) The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, have been restated; and
 - (b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.
8. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor had audited the prior period’s financial statements, the auditor shall also follow the relevant requirements of ISA (NZ) 560.³ If the prior period financial statements are amended, the auditor shall determine that the comparative information agrees with the amended financial statements.
9. As required by ISA (NZ) 580,⁴ the auditor shall request written representations for all periods referred to in the auditor’s opinion. The auditor shall also obtain a specific written representation regarding any restatement made to correct a material

³ ISA (NZ) 560, *Subsequent Events*, paragraphs 14-17.

⁴ ISA (NZ) 580, *Written Representations*, paragraph 14.

ISA (NZ) 710

misstatement in prior period financial statements that affect the comparative information. (Ref: Para. A1)

Auditor Reporting*Corresponding Figures*

10. When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the circumstances described in paragraphs 11, 12, and 14. (Ref: Para. A2)
11. If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements. In the Basis for Modification paragraph in the auditor's report, the auditor shall either:
 - (a) Refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material; or
 - (b) In other cases, explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures. (Ref: Para. A3-A5)
12. If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, and the corresponding figures have not been properly restated or appropriate disclosures have not been made, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein. (Ref: Para. A6)

Prior Period Financial Statements Audited by a Predecessor Auditor

13. If the financial statements of the prior period were audited by a predecessor auditor and the auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and decides to do so, the auditor shall state in an Other Matter paragraph in the auditor's report:
 - (a) That the financial statements of the prior period were audited by the predecessor auditor;
 - (b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
 - (c) The date of that report. (Ref: Para. A7)

Prior Period Financial Statements Not Audited

14. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain

misstatements that materially affect the current period's financial statements.⁵ (Ref: Para A8)

Comparative Financial Statements

15. When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed. (Ref: Para. A9-A10)
16. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with ISA (NZ) 706 (Revised).⁶ (Ref: Para. A11)

Prior Period Financial Statements Audited by a Predecessor Auditor

17. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:
 - (a) that the financial statements of the prior period were audited by a predecessor auditor;
 - (b) the type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
 - (c) the date of that report,
 unless the predecessor auditor's report on the prior period's financial statements is reissued with the financial statements.
18. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and, unless all of those charged with governance are involved in managing the entity,⁷ those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period. (Ref: Para. A12)

Prior Period Financial Statements Not Audited

19. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient

⁵ ISA (NZ) 510, paragraph 6.

⁶ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 10.

⁷ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13.

appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.⁸ (Ref: Para. A13)

Application and Other Explanatory Material

Audit Procedures

Written Representations (Ref: Para. 9)

A1. [Amended by the NZAuASB.]

NZA1.1 In the case of comparative financial statements, the written representations are requested for all periods referred to in the auditor's opinion because those charged with governance need to reaffirm that the written representations they previously made with respect to the prior period remain appropriate. In the case of corresponding figures, the written representations are requested for the financial statements of the current period only because the auditor's opinion is on those financial statements, which include the corresponding figures. However, the auditor requests a specific written representation regarding any restatement made to correct a material misstatement in the prior period financial statements that affect the comparative information.

Auditor Reporting

Corresponding Figures

No Reference in Auditor's Opinion (Ref: Para. 10)

A2. The auditor's opinion does not refer to the corresponding figures because the auditor's opinion is on the current period financial statements as a whole, including the corresponding figures.

Modification in Auditor's Report on the Prior Period Unresolved (Ref: Para. 11)

A3. When the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modified opinion is resolved and properly accounted for or disclosed in the financial statements in accordance with the applicable financial reporting framework, the auditor's opinion on the current period need not refer to the previous modification.

A4. When the auditor's opinion on the prior period, as previously expressed, was modified, the unresolved matter that gave rise to the modification may not be relevant to the current period figures. Nevertheless, a qualified opinion, a disclaimer of opinion, or an adverse opinion (as applicable) may be required on the current period's financial statements because of the effects or possible effects of the unresolved matter on the comparability of the current and corresponding figures.

A5. Illustrative examples of the auditor's report if the auditor's report on the prior period included a modified opinion and the matter giving rise to the modification is unresolved are contained in Illustrations 1 and 2 of the Appendix.

⁸ ISA (NZ) 510, paragraph 6.

Misstatement in Prior Period Financial Statements (Ref: Para. 12)

- A6. When the prior period financial statements that are misstated have not been amended and an auditor's report has not been reissued, but the corresponding figures have been properly restated or appropriate disclosures have been made in the current period financial statements, the auditor's report may include an Emphasis of Matter paragraph describing the circumstances and referring to, where relevant, disclosures that fully describe the matter that can be found in the financial statements (see ISA (NZ) 706 (Revised)).

Prior Period Financial Statements Audited by a Predecessor Auditor (Ref: Para. 13)

- A7. An illustrative example of the auditor's report if the prior period financial statements were audited by a predecessor auditor and the auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures is contained in Illustration 3 of the Appendix.

NZA7.1 In New Zealand, the auditor's opinion on financial statements prepared under New Zealand generally accepted accounting practice refers to financial statements for the current period, which include corresponding figures, and not to comparative financial statements. Consequently, paragraphs 15,16,17,18 and 19, and related paragraphs A8, A9, A10 and A11 have no application.

Prior Period Financial Statements Not Audited (Ref: Para.14)

- A8. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by ISA (NZ) 705 (Revised)⁹ to express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with ISA (NZ) 705 (Revised). If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with ISA (NZ) 701.¹⁰

Comparative Financial Statements

Reference in Auditor's Opinion (Ref: Para. 15)

- A9. Because the auditor's report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, or include an Emphasis of Matter paragraph with respect to one or more periods, while expressing a different auditor's opinion on the financial statements of the other period.
- A10. An illustrative example of the auditor's report if the auditor is required to report on both the current and the prior period financial statements in connection with the current year's audit and the prior period included a modified opinion and the matter giving rise to the modification is unresolved, is contained in Illustration 4 of the Appendix.

Opinion on Prior Period Financial Statements Different from Previous Opinion (Ref: Para. 16)

⁹ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

¹⁰ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA (NZ) 710

A11. When reporting on the prior period financial statements in connection with the current period's audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period. In some jurisdictions, the auditor may have additional reporting responsibilities designed to prevent future reliance on the auditor's previously issued report on the prior period financial statements.

Prior Period Financial Statements Audited by a Predecessor Auditor (Ref: Para. 18)

A12. The predecessor auditor may be unable or unwilling to reissue the auditor's report on the prior period financial statements. An Other Matter paragraph of the auditor's report may indicate that the predecessor auditor reported on the financial statements of the prior period before amendment. In addition, if the auditor is engaged to audit and obtains sufficient appropriate audit evidence to be satisfied as to the appropriateness of the amendment, the auditor's report may also include the following paragraph:

As part of our audit of the 20X2 financial statements, we also audited the adjustments described in Note X that were applied to amend the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements taken as a whole.

Prior Period Financial Statements Not Audited (Ref: Para. 19)

A13. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by ISA (NZ) 705 (Revised) to express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with ISA (NZ) 705 (Revised). If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with ISA (NZ) 701.

Illustrations of Auditors' Reports

[NZ] Illustration 1 - Corresponding Figures (Ref: Para. A5)

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)¹¹ does not apply).
- The financial statements are prepared by management of the entity in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS) (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.¹²
- The auditor's report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period's figures are material and require a modification to the auditor's opinion regarding the current period figures.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (Revised).¹³
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.¹⁴
- The auditor has not obtained any other information prior to the date of the auditor's report.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

¹¹ ISA (NZ) 600 (Revised) , *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹² ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*

¹³ ISA (NZ) 570 (Revised), *Going Concern*

¹⁴ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements¹⁵

Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#) (NZ IFRS).

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from NZ IFRS. This is the result of a decision taken by the directors at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the director's' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained,

¹⁵ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

ISA (NZ) 710

we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Directors' Responsibilities for the Financial Statements¹⁶

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

-

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

[Auditor Address]

[Date]

¹⁶ Throughout these illustrative auditor's reports, the term director may need to be replaced by another term that is appropriate in the context of the legal framework of the entity.

[NZ] Illustration 2 - Corresponding Figures (Ref: Para. A5)

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor's report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period's figures are immaterial but require a modification to the auditor's opinion because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has not obtained any other information prior to the date of the auditor's report.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements¹⁷**Qualified Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

¹⁷ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

ISA (NZ) 710

In our opinion, except for the possible effects on the corresponding figures of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Qualified Opinion

Because we were appointed auditors of the Company during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 20X0. Our audit opinion on the financial statements for the period ended 31 December, 20X0 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Directors' Responsibilities for the Financial Statements¹⁸

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

¹⁸ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

ISA (NZ) 710**Report on Other Legal and Regulatory Requirements**

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

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

[Auditor Address]

[Date]

[NZ] Illustration 3 - Corresponding Figures: (Ref: Para. A7)

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570-~~(Revised)~~.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor.
- The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and decides to do so.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements¹⁹

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

¹⁹ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

ISA (NZ) 710

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Matter

The financial statements of the Company for the year ended December 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

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

Directors' Responsibilities for the Financial Statements²⁰

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

²⁰ Or other term that is appropriate in the context of the legal framework for the entity.

ISA (NZ) 710**Report on Other Legal and Regulatory Requirements**

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

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

[Auditor's Address]

[Date]

[NZ] Illustration 4 - Comparative Financial Statements: (Ref: Para. A9)

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor is required to report on both the current period financial statements and the prior period financial statements in connection with the current year's audit.
- The auditor's report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period's figures are material to both the current period financial statements and prior period financial statements and require a modification to the auditor's opinion.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570-~~(Revised)~~.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has not obtained any other information prior to the date of the auditor's report.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements²¹

Qualified Opinion

We have audited the financial statements of ABC Company (the Company) which comprise the statements of financial position as at December 31, 20X1 and 20X0, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the

²¹ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, *(or give a true and fair view of)* the financial position of ABC Company as at December 31, 20X1 and 20X0 and *(of)* its financial performance for the years then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from NZ IFRS. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our qualified audit opinion.

Other than in our capacity as auditor, we have no relationship with, or interest in, the Company.

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Directors' Responsibilities for the Financial Statements²²

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

²² Or other terms that are appropriate in the context of the legal framework of the entity.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

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

[Auditor's Address]

[Date]

ISA (NZ) 710

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 710.

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC)~~.

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.

Compliance with this ISA (NZ) enables compliance with ISA 710.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 710 *Comparative Information – Corresponding Figures and Comparative Financial Reports*.

ASA 710 conforms to ISA 710.

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 710 Comparative Information – Corresponding Figures and Comparative Financial Statements</u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 720 (REVISED)

The Auditor's Responsibilities Relating to Other Information (~~ISA (NZ) 720 (Revised)~~)

~~This Standard was issued on 1 October 2015 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 28 October 2015.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements for periods ending on or after 15 December 2016. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 720 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 720 *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements*.~~

~~This compilation was prepared in October 2024 and incorporates amendments up to and including November 2023.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 700 (Revised) issued by the External Reporting Board in October 2015.

ISA (NZ) 720 (Revised)**COPYRIGHT**

© External Reporting Board (“XRB”) 2015

~~This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.~~

~~Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz~~

~~All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org~~

ISBN 978-1-927292-89-4

ISA (NZ) 720 (Revised)**Explanatory note**

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 720 (Revised) issued by the External Reporting Board in October 2015 (as amended to November 2023).

The revision of ISA (NZ) 720 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board ("IAASB"). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 720 (Revised)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 720 (REVISED)

THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1–9
Effective Date	10–NZ10.1
Objectives	11
Definitions	12
Requirements	
Obtaining the Other Information	13
Reading and Considering the Other Information	14–15
Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated	16
Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists	17–19
Responding When a Material Misstatement in the Financial Statement Exists or the Auditor's Understanding of the Entity and Its Environment Needs to be Updated	20
Reporting	21–24
Documentation	25
Application and Other Explanatory Material	
Definitions	A1–A10
Obtaining the Other Information	A11–A22
Reading and Considering the Other Information	A23–A38
Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated	A39–A43
Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists	A44–A50
Responding When a Material Misstatement in the Financial Statement Exists or the	

ISA (NZ) 720 (Revised)

Auditor's Understanding of the Entity and Its Environment Needs to be Updated	A51
Reporting	A52–A59
Appendix 1: Examples of Amounts or Other Items that May be Included in the Other Information	
Appendix 2: Illustrations of Auditor's Reports Relating to Other Information	
[NZ] Appendix 3: Decision Tree for Other Information Reporting in the Auditor's Report	
Accompanying Attachment: Conformity to the International Standards on Auditing	

International Standard on Auditing (New Zealand) (ISA (NZ)) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, should be read in conjunction with ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

ISA (NZ) 720 (Revised)

History of Amendments

Table of pronouncements – ISA (NZ) 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*

This table lists the pronouncements establishing and amending ISA (NZ) 720 (Revised).

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 720 (Revised)	~~September 2015~~ <u>October 2025</u>	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for audits of historical financial statements for periods ending on or after 15 December 2016.</u>
~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1~~	~~June 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 July 2020.~~
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	~~February 2020~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2021.~~
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~	~~July 2021~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)~~	~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~
~~Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards~~	~~May 2023~~	~~Mandatory date of 1 January 2023.~~
~~Narrow Scope Amendments to ISAs (NZ) due to Public Interest Entity Revisions~~	~~November 2023~~	~~Mandatory date of 15 December 2024.~~

ISA (NZ) 720 (Revised)

Table of Amended Paragraphs in ISA (NZ) 720 (Revised)		
Paragraph-affected	How affected	By...[date]
4, A38, footnote 2, footnote 12	Amended	Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]
A31	Amended	Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019) [Feb 2020]
A24	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]
A35, A36, Appendix 2 Illustration 1,2,3,4,5,6,7, Footnote 1	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]
Illustrative reports	Amended	Amendments to Auditing and Review Engagement Standards as a Result of the Revisions to Financial Reporting Standards [May 2023]
Illustrative reports	Amended	Narrow Scope Amendments to ISAs (NZ) due to Public Interest Entity Revisions [November 2023]

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.
2. This ISA (NZ) is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this ISA (NZ) are to be understood in the context of the overall objectives of the auditor as stated in paragraph 11 of ISA (NZ) 200.² The requirements in the ISAs (NZ) are designed to enable the auditor to achieve the objectives specified in the ISAs (NZ), and thereby the overall objectives of the auditor. The auditor's opinion on the financial statements does not cover the other information, nor does this ISA (NZ) require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.
3. This ISA (NZ) requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.
4. This ISA (NZ) may also assist the auditor in complying with relevant ethical requirements³ that require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information provided recklessly, or omits or obscures required information where such omission or obscurity would be misleading.
5. Other information may include amounts or other items that are intended to be the same as, to summarise, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.
6. The auditor's responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.
7. This ISA (NZ) does not apply to:
 - (a) Preliminary announcements of financial information; or
 - (b) Securities offering documents, including prospectuses.

² ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*

³ Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, paragraph R111.2

ISA (NZ) 720 (Revised)

8. The auditor's responsibilities under this ISA (NZ) do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
9. Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this ISA (NZ).

Effective Date

10. ~~This ISA (NZ) is effective for audits of financial statements for periods ending on or after 15 December 2016. [Note: For effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments]. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~
- NZ10.1 This ~~ISA (NZ) Standard supersedes repeals~~ ISA (NZ) 720 ~~(Revised), The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements~~ The Auditor's Responsibilities Relating to Other Information issued in October 2015.

Objectives

11. The objectives of the auditor, having read the other information, are:
 - (a) To consider whether there is a material inconsistency between the other information and the financial statements;
 - (b) To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit;
 - (c) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and
 - (d) To report in accordance with this ISA (NZ).

Definitions

12. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. (Ref: Para. A1–A5)
 - (b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). (Ref: Para. A6–A7)

ISA (NZ) 720 (Revised)

- (c) Other information – Financial or non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report. (Ref: Para. A8–A10)

Requirements**Obtaining the Other Information**

- 13. [Amended by the NZAuASB].

NZ13.1 The auditor shall: (Ref: Para. A11–A22)

- (a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity’s planned manner and timing of the issuance of such document(s);
- (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor’s report, the final version of the document(s) comprising the annual report; and
- (c) When some or all of the document(s) determined in (a) will not be available until after the date of the auditor’s report, request those charged with governance to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this ISA (NZ). (Ref: Para. A22)

Reading and Considering the Other Information

- 14. The auditor shall read the other information and, in doing so shall: (Ref: Para. A23–A24)
 - (a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and (Ref: Para. A25–A29)
 - (b) Consider whether there is a material inconsistency between the other information and the auditor’s knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. (Ref: Para. A30–A36)
- 15. While reading the other information in accordance with paragraph 14, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor’s knowledge obtained in the audit appears to be materially misstated. (Ref: Para. A24, A37–A38)

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated

- 16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the

ISA (NZ) 720 (Revised)

matter with management and, if necessary, perform other procedures to conclude whether: (Ref: Para. A39–A43)

- (a) A material misstatement of the other information exists;
- (b) A material misstatement of the financial statements exists; or
- (c) The auditor's understanding of the entity and its environment needs to be updated.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

17. If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:
 - (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
 - (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.
18. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (Ref: Para. A44)
 - (a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(e)(ii)); or (Ref: Para. A45)
 - (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. (Ref: Para. A46–A47)
19. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:
 - (a) If the other information is corrected, perform the procedures necessary in the circumstances; or (Ref: Para. A48)
 - (b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared. (Ref: Para. A49–A50)

Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated

20. If, as a result of performing the procedures in paragraphs 14–15, the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other ISAs (NZ). (Ref: Para. A51)

ISA (NZ) 720 (Revised)

Reporting

21. [Amended by the NZAuASB].

NZ21.1 The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:

- (a) For an audit of financial statements of a FMC reporting entity considered to have a higher level of public accountability, the auditor has obtained, or expects to obtain, the other information; or
- (b) For an audit of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability, the auditor has obtained some or all of the other information. (Ref: Para. A52)

22. [Amended by the NZAuASB].

NZ22.1 When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)

- (a) A statement that those charged with governance are responsible for the other information;
- (b) An identification of:
 - (i) Other information, if any, obtained by the auditor prior to the date of the auditor's report; and
 - (ii) For an audit of financial statements of a FMC reporting entity considered to have a higher level of public accountability, other information, if any, expected to be obtained after the date of the auditor's report;
- (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;
- (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA (NZ); and
- (e) When other information has been obtained prior to the date of the auditor's report, either:
 - (i) A statement that the auditor has nothing to report; or
 - (ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

23. When the auditor expresses a qualified or adverse opinion in accordance with ISA (NZ) 705 (Revised),⁴ the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22(e). (Ref: Para. A54–A58)

⁴ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

ISA (NZ) 720 (Revised)*Reporting Prescribed by Law or Regulation*

24. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor's report using a specific layout or wording, the auditor's report shall refer to International Standards on Auditing (New Zealand) only if the auditor's report includes, at a minimum: (Ref: Para. A59)
- (a) Identification of the other information obtained by the auditor prior to the date of the auditor's report;
 - (b) A description of the auditor's responsibilities with respect to the other information; and
 - (c) An explicit statement addressing the outcome of the auditor's work for this purpose.

Documentation

25. In addressing the requirements of ISA (NZ) 230⁵ as it applies to this ISA (NZ), the auditor shall include in the audit documentation:
- (a) Documentation of the procedures performed under this ISA (NZ); and
 - (b) The final version of the other information on which the auditor has performed the work required under this ISA (NZ).

Application and Other Explanatory Material**Definitions***Annual Report* (Ref: Para. 12(a))

- A1. Law, regulation or custom may define the content of an annual report, and the name by which it is to be referred, for entities in a particular jurisdiction; however, the content and the name may vary within a jurisdiction and from one jurisdiction to another.
- A2. An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.
- A3. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:
 - Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report).

⁵ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11

ISA (NZ) 720 (Revised)

- Chairman's statement.
 - Corporate governance statement.
 - Internal control and risk assessment reports.
- A4. An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.
- A5. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this ISA (NZ), include:
- Separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries.
 - Corporate social responsibility reports.
 - Sustainability reports.
 - Diversity and equal opportunity reports.
 - Product responsibility reports.
 - Labour practices and working conditions reports.
 - Human rights reports.

Misstatement of the Other Information (Ref: Para. 12(b))

- A6. When a particular matter is disclosed in the other information, the other information may omit or obscure information that is necessary for a proper understanding of that matter. For example, if the other information purports to address the key performance indicators used by management, then omission of a key performance indicator used by management could indicate that the other information is misleading.
- A7. The concept of materiality may be discussed in a framework applicable to the other information and, if so, such a framework may provide a frame of reference for the auditor in making judgements about materiality under this ISA (NZ). In many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of the other information is material:
- Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements as such users may be expected to read the other information to provide context to the financial statements.

ISA (NZ) 720 (Revised)

- Judgements about materiality take into account the specific circumstances of the misstatement, considering whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.
- Judgements about materiality involve both qualitative and quantitative considerations. Accordingly, such judgements may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report.

Other Information (Ref: Para. 12(c))

- A8. Appendix 1 contains examples of amounts or other items that may be included in the other information.
- A9. In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the financial statements.⁶ As such disclosures are required by the applicable financial reporting framework, they form part of the financial statements. Accordingly, they do not constitute other information for the purpose of this ISA (NZ).
- A10. eXtensible Business Reporting Language (XBRL) tags do not represent other information as defined in this ISA (NZ).

Obtaining the Other Information (Ref: Para. 13)

- A11. Determining the document(s) that is or comprises the annual report is often clear based on law, regulation or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that together comprise the annual report, or may have committed to do so. In some cases, however, it may not be clear which document(s) is or comprises the annual report. In such cases, the timing and purpose of the documents (and for whom they are intended) are matters that may be relevant to the auditor's determination of which document(s) is or comprises the annual report.
- A12. When the annual report is translated into other languages pursuant to law or regulation (such as may occur when a jurisdiction has more than one official language), or when multiple "annual reports" are prepared under different legislation (for example, when an entity is ~~listed a~~ [publicly traded entity](#) in more than one jurisdiction), consideration may need to be given as to whether one, or more than one of the "annual reports" form part of the other information. Local law or regulation may provide further guidance in this respect.
- A13. Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate with management or those charged with governance:
- The auditor's expectations in relation to obtaining the final version of the annual report (including a combination of documents that together comprise the annual

⁶ For example, New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) 7, *Financial Instruments: Disclosures*, permits certain disclosures required by the NZ IFRS to either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.

ISA (NZ) 720 (Revised)

report) in a timely manner prior to the date of the auditor's report such that the auditor can complete the procedures required by this ISA (NZ) before the date of the auditor's report, or if that is not possible, as soon as practicable and in any case prior to the entity's issuance of such information.

- The possible implications when the other information is obtained after the date of the auditor's report.

A14. The communications referred to in paragraph A13 may be particularly appropriate for example:

- In an initial audit engagement.
- When there has been a change in management or those charged with governance.
- When other information is expected to be obtained after the date of the auditor's report.

A15. Where those charged with governance are to approve the other information prior to its issuance by the entity, the final version of such other information is the one that has been approved by those charged with governance for issuance.

A16. In some cases, the entity's annual report may be a single document to be released, in accordance with law or regulation or the entity's reporting practice, shortly after the entity's financial reporting period such that it is available to the auditor prior to the date of the auditor's report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity's choosing. There may also be circumstances when the entity's annual report is a combination of documents, each subject to different requirements or reporting practice by the entity with respect to the timing of their release.

A17. There may be circumstances when, at the date of the auditor's report, the entity is considering the development of a document that may be part of the entity's annual report (for example, a voluntary report to stakeholders) but management is unable to confirm to the auditor the purpose or timing of such a document. If the auditor is unable to ascertain the purpose or timing of such a document, the document is not considered other information for purposes of this ISA (NZ).

A18. [Amended by the NZAuASB].

NZA18.1 Obtaining the other information in a timely manner prior to the date of the auditor's report enables any revisions that are found to be necessary to be made to the financial statements, the auditor's report, or the other information prior to their issuance. The audit engagement letter⁷ may make reference to an agreement with those charged with governance to make available to the auditor the other information in a timely manner, and if possible prior to the date of the auditor's report.

A19. When other information is only made available to users via the entity's website, the version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the auditor would perform procedures in accordance with this ISA (NZ). The auditor has no responsibility under this ISA (NZ) to search for other information, including other information that may be on the entity's

⁷ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph A23

ISA (NZ) 720 (Revised)

website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity's website or otherwise has been appropriately transmitted or displayed electronically.

A20. The auditor is not precluded from dating or issuing the auditor's report if the auditor has not obtained some or all of the other information.

A21. When the other information is obtained after the date of the auditor's report, the auditor is not required to update the procedures performed in accordance with paragraphs 6 and 7 of ISA (NZ) 560.⁸

A22. [Amended by the NZAuASB].

NZA22.1 ISA (NZ) 580⁹ establishes requirements and provides guidance on the use of written representations. The written representation required to be requested by paragraph 13(c) regarding other information that will be available only after the date of the auditor's report is intended to support the auditor's ability to complete the procedures required by this ISA (NZ) with respect to such information. In addition, the auditor may find it useful to request other written representations, for example, that:

- Those charged with governance have informed the auditor of all the documents that they expect to issue that may comprise other information;
- The financial statements and any other information obtained by the auditor prior to the date of the auditor's report are consistent with one another, and the other information does not contain any material misstatements; and
- With regard to other information that has not been obtained by the auditor prior to the date of the auditor's report, that those charged with governance intend to prepare and issue such other information and the expected timing of such issuance.

Reading and Considering the Other Information (Ref: Para. 14–15)

A23. The auditor is required by ISA (NZ) 200¹⁰ to plan and perform the audit with professional scepticism. Maintaining professional scepticism when reading and considering the other information includes, for example, recognising that management may be overly optimistic about the success of its plans, and being alert to information that may be inconsistent with:

- (a) The financial statements; or
- (b) The auditor's knowledge obtained in the audit.

A24. In accordance with ISA (NZ) 220 (Revised), the engagement partner is required to take responsibility for the direction and supervision of the members of the engagement team and the review of their work,¹¹ and determine that the nature, timing and extent of supervision, direction and review is planned and performed in accordance with the firm's policies and procedures, professional standards and applicable legal and regulatory

⁸ ISA (NZ) 560, *Subsequent Events*

⁹ ISA (NZ) 580, *Written Representations*

¹⁰ ISA (NZ) 200, paragraph 175

¹¹ ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraph 29-30

ISA (NZ) 720 (Revised)

requirements.¹² In the context of this ISA (NZ), factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- The relative experience of engagement team members.
- Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
- The degree of judgement involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- Whether, in the case of a group audit, it is necessary to make enquiries of a component auditor in addressing the other information related to that component.

Considering Whether There is a Material Inconsistency between the Other Information and the Financial Statements (Ref: Para. 14(a))

A25. Other information may include amounts or other items that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial statements. Examples of such amounts or other items may include:

- Tables, charts or graphs containing extracts of the financial statements.
- A disclosure providing greater detail about a balance or account shown in the financial statements, such as “Revenue for 20X1 comprised XXX million from product X and YYY million from product Y.”
- Descriptions of the financial results, such as “Total research and development expense was XXX in 20X1.”

A26. In evaluating the consistency of selected amounts or other items in the other information with the financial statements, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements.

A27. Selecting the amounts or other items to compare is a matter of professional judgement. Factors relevant to this judgement include:

- The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount).
- If quantitative, the relative size of the amount compared with accounts or items in the financial statements or the other information to which they relate.
- The sensitivity of the particular amount or other item in the other information, for example, share based payments for senior management.

¹² ISA (NZ) 220 (Revised), paragraph 30(a)

ISA (NZ) 720 (Revised)

A28. Determining the nature and extent of procedures to address the requirement in paragraph 14(a) is a matter of professional judgement, recognising that the auditor's responsibilities under this ISA (NZ) do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information. Examples of such procedures include:

- For information that is intended to be the same as information in the financial statements, comparing the information to the financial statements.
- For information intended to convey the same meaning as disclosures in the financial statements, comparing the words used and considering the significance of differences in wording used and whether such differences imply different meanings.
- Obtaining a reconciliation between an amount within the other information and the financial statements from management and:
 - Comparing items in the reconciliation to the financial statements and the other information; and
 - Checking whether the calculations within the reconciliation are arithmetically accurate.

A29. Evaluating the consistency of selected amounts or other items in the other information with the financial statements includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial statements.

Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit (Ref: Para. 14(b))

A30. Other information may include amounts or items that are related to the auditor's knowledge obtained in the audit (other than those in paragraph 14(a)). Examples of such amounts or items may include:

- A disclosure of the units produced, or a table summarising such production by geographical region.
- A statement that "The company introduced product X and product Y during the year."
- A summary of the locations of the entity's major operations, such as "the entity's major centre of operation is in country X, and there are also operations in countries Y and Z."

A31. The auditor's knowledge obtained in the audit includes the auditor's understanding of the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control, obtained in accordance with ISA (NZ) 315 (Revised 2019).¹³ ISA (NZ) 315 (Revised 2019) sets out the auditor's required understanding, which includes such matters as obtaining an understanding of:

- (a) The entity's organisational structure, ownership and governance, and its business model, including the extent to which the business model integrates the use of IT;
- (b) Relevant industry, regulatory, and other external factors;

¹³ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraphs 19-27

ISA (NZ) 720 (Revised)

- (c) The relevant measures used, internally and externally, to assess the entity's financial performance; and
- (d) The entity's internal control.

A32. The auditor's knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's assessment of the entity's ability to continue as a going concern.¹⁴

A33. In considering whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, the auditor may focus on those matters in the other information that are of sufficient importance that a misstatement of the other information in relation to that matter could be material.

A34. In relation to many matters in the other information, the auditor's recollection of the audit evidence obtained and conclusions reached in the audit may be sufficient to enable the auditor to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit. The more experienced and the more familiar with the key aspects of the audit the auditor is, the more likely it is that the auditor's recollection of relevant matters will be sufficient. For example, the auditor may be able to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit in light of the auditor's recollection of discussions held with management or those charged with governance or findings from procedures carried out during the audit such as the reading of board minutes, without the need to take further action.

A35. The auditor may determine that referring to relevant audit documentation or making enquiries of relevant members of the engagement team, including relevant component auditors, is appropriate as a basis for the auditor's consideration of whether a material inconsistency exists. For example:

- When the other information describes the planned cessation of a major product line and, although the auditor is aware of the planned cessation, the auditor may make enquiries of the relevant engagement team member who performed the audit procedures in this area to support the auditor's consideration of whether the description is materially inconsistent with the auditor's knowledge obtained during the audit.
- When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarised to support the auditor's recollection.

A36. Whether, and if so the extent to which, the auditor refers to relevant audit documentation, or makes enquiries of relevant members of the engagement team, including relevant component auditors, is a matter of professional judgement. However, it may not be necessary for the auditor to refer to relevant audit documentation, or to make enquiries of

¹⁴ [ISA \(NZ\) 570, *Going Concern*](#)

ISA (NZ) 720 (Revised)

relevant members of the engagement team, including relevant component auditors, about any matter included in the other information.

Remaining Alert for Other Indications that the Other Information Appears to Be Materially Misstated (Ref: Para. 15)

A37. Other information may include discussion of matters that are not related to the financial statements and may also extend beyond the auditor's knowledge obtained in the audit. For example, the other information may include statements about the entity's greenhouse gas emissions.

A38. Remaining alert for other indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated assists the auditor in complying with relevant ethical requirements that require the auditor to avoid being knowingly associated with other information that the auditor believes contains a materially false or misleading statement, a statement provided recklessly, or omits or obscures necessary information such that the other information is misleading.¹⁵ Remaining alert for other indications that the other information appears to be materially misstated could potentially result in the auditor identifying such matters as:

- Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other information that lead the auditor to believe that the other information appears to be materially misstated; or
- An internal inconsistency in the other information that leads the auditor to believe that the other information appears to be materially misstated.

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated (Ref: Para. 16)

A39. The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgement.

A40. Conversely, the discussion with management may provide further information that supports the auditor's conclusion that a material misstatement of the other information exists.

A41. It may be more difficult for the auditor to challenge management on matters of judgement than on those of a more factual nature. However, there may be circumstances where the auditor concludes that the other information contains a statement that is not consistent with the financial statements or the auditor's knowledge obtained in the audit. These circumstances may raise doubt about the other information, the financial statements, or the auditor's knowledge obtained in the audit.

¹⁵ Professional and Ethical Standard 1, paragraph R111.2

ISA (NZ) 720 (Revised)

A42. As there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists are matters of the auditor's professional judgement in the circumstances.

A43. When a matter is unrelated to the financial statements or the auditor's knowledge obtained in the audit, the auditor may not be able to fully assess management's responses to the auditor's enquiries. Nevertheless, based on management's further information or explanations, or following changes made by management to the other information, the auditor may be satisfied that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated. When the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated, the auditor may request management to consult with a qualified third party (for example, a management's expert or legal counsel). In certain cases, after considering the responses from management's consultation, the auditor may not be able to conclude whether or not a material misstatement of the other information exists. Actions the auditor may then take include one or more of the following:

- Obtaining advice from the auditor's legal counsel;
- Considering the implications for the auditor's report for example, whether to describe the circumstances when there is a limitation imposed by management; or
- Withdrawing from the audit, where withdrawal is possible under applicable law or regulation.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained prior to the Date of the Auditor's Report (Ref: Para. 18)

A44. The actions the auditor takes if the other information is not corrected after communicating with those charged with governance are a matter of the auditor's professional judgement. The auditor may take into account whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation or other professional standards to communicate the matter to a regulator or relevant professional body.

Reporting Implications (Ref: Para. 18(a))

A45. In rare circumstances, a disclaimer of opinion on the financial statements may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.

ISA (NZ) 720 (Revised)**Withdrawal from the Engagement (Ref: Para. 18(b))**

A46. Withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit.

Considerations specific to public sector entities (Ref: Para. 18(b))

A47. In the public sector, withdrawal from the engagement may not be possible. In such cases, the auditor may issue a report to the legislature providing details of the matter or may take other appropriate actions.

Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained after the Date of the Auditor's Report (Ref: Para. 19)

A48. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, and such a material misstatement has been corrected, the auditor's procedures necessary in the circumstances include determining that the correction has been made (in accordance with paragraph 17(a)) and may include reviewing the steps taken by management to communicate with those in receipt of the other information, if previously issued, to inform them of the revision.

A49. If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditor's report is prepared requires the exercise of professional judgement, and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.

A50. When a material misstatement of the other information remains uncorrected, appropriate actions that the auditor may take to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared, when permitted by law or regulation, include, for example:

- Providing a new or amended auditor's report to management including a modified section in accordance with paragraph 22, and requesting management to provide this new or amended auditor's report to users for whom the auditor's report is prepared. In doing so, the auditor may need to consider the effect, if any, on the date of the new or amended auditor's report, in view of the requirements of the ISAs (NZ) or applicable law or regulation. The auditor may also review the steps taken by management to provide the new or amended auditor's report to such users;
- Bringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared (for example, by addressing the matter in a general meeting of shareholders);
- Communicating with a regulator or relevant professional body about the uncorrected material misstatement; or
- Considering the implications for engagement continuance (see also paragraph A46).

ISA (NZ) 720 (Revised)**Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 20)**

A51. In reading the other information, the auditor may become aware of new information that has implications for:

- The auditor's understanding of the entity and its environment, the financial reporting framework and the entity's system of internal control and, accordingly, may indicate the need to revise the auditor's risk assessment.¹⁶
- The auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.¹⁷
- The auditor's responsibilities relating to subsequent events.¹⁸

Reporting (Ref: Para. 21–24)

A52. [Amended by the NZAuASB].

NZA52.1 For an audit of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this ISA (NZ). The auditor may consider it appropriate to do so, for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.

Illustrative Statements (Ref: Para. 21–22)

A53. Illustrative examples of the "Other Information" section of the auditor's report are included in Appendix 2.

Reporting Implications When the Auditor's Opinion on the Financial Statements Is Qualified or Adverse (Ref: Para. 23)

A54. A qualified or adverse auditor's opinion on the financial statements may not have an impact on the statement required by paragraph 22(e) if the matter in respect of which the auditor's opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of non-disclosure of directors' remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this ISA (NZ). In other circumstances, there may be implications for such reporting as described in paragraphs A55–A58.

¹⁶ ISA (NZ) 315 (Revised 2019), paragraphs 37, and A236

¹⁷ ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*

¹⁸ ISA (NZ) 560, paragraphs 10 and 14

ISA (NZ) 720 (Revised)**Qualified Opinion Due to a Material Misstatement in the Financial Statements**

A55. In circumstances when the auditor's opinion is qualified, consideration may be given as to whether the other information is also materially misstated for the same matter as, or a related matter to, the matter giving rise to the qualified opinion on the financial statements.

Qualified Opinion Due to Limitation of Scope

A56. When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether or not the amounts or other items in the other information related to this matter result in a material misstatement of the other information. Accordingly, the auditor may need to modify the statement required by paragraph 22(e) to refer to the auditor's inability to consider management's description of the matter in the other information in respect of which the auditor's opinion on the financial statements has been qualified as explained in the Basis for Qualified Opinion paragraph. The auditor is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified.

Adverse Opinion

A57. An adverse opinion on the financial statements relating to a specific matter(s) described in the Basis for Adverse Opinion paragraph does not justify the omission of reporting of material misstatements of the other information that the auditor has identified in the auditor's report in accordance with paragraph 22(e)(ii). When an adverse opinion has been expressed on the financial statements, the auditor may need to appropriately modify the statement required by paragraph 22(e) for example, to indicate that amounts or items in the other information is materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse opinion on the financial statements.

Disclaimer of Opinion

A58. When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by ISA (NZ) 705 (Revised), the auditor's report does not include a section addressing the reporting requirements under this ISA (NZ).

Reporting Prescribed by Law or Regulation (Ref: Para. 24)

A59. ISA (NZ) 200¹⁹ explains that the auditor may be required to comply with legal or regulatory requirements in addition to the ISAs (NZ). Where this is the case, the auditor may be obliged to use a specific layout or wording in the auditor's report that differs from that described in this ISA (NZ). Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs (NZ), promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. When the differences between the legal or regulatory requirements to report with respect to the other information and this ISA (NZ)

¹⁹ ISA (NZ) 200, paragraph A650

ISA (NZ) 720 (Revised)

relate only to the layout and wording in the auditor's report and, at a minimum, each of the elements identified in paragraph 24 is included in the auditor's report, the auditor's report may refer to International Standards on Auditing (New Zealand). Accordingly, in such circumstances the auditor is considered to have complied with the requirements of this ISA (NZ), even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements.

ISA (NZ) 720 (Revised)**Appendix 1**

(Ref: Para. 14, A8)

Examples of Amounts or Other Items that May Be Included in the Other Information

The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive.

Amounts

- Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Selected operating data, such as income from continuing operations by major operating area, or sales by geographical segment or product line.
- Special items, such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions, and restructuring and reorganisation expenses.
- Liquidity and capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
- Capital expenditures by segment or division.
- Amounts involved in, and related financial effects of, off-balance sheet arrangements.
- Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.
- Financial measures or ratios, such as gross margin, return on average capital employed, return on average shareholders' equity, current ratio, interest coverage ratio and debt ratio. Some of these may be directly reconcilable to the financial statements.

Other Items

- Explanations of critical accounting estimates and related assumptions.
- Identification of related parties and descriptions of transactions with them.
- Articulation of the entity's policies or approach to manage commodity, foreign exchange or interest rate risks, such as through the use of forward contracts, interest rate swaps, or other financial instruments.
- Descriptions of the nature of off-balance sheet arrangements.
- Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases, and other contingencies, including management's qualitative assessments of the entity's related exposures.
- Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position, or will have a material impact on the entity's future financial prospects.

ISA (NZ) 720 (Revised)

- Management's qualitative assessments of the impacts of new financial reporting standards that have come into effect during the period, or will come into effect in the following period, on the entity's financial results, financial position and cash flows.
- General descriptions of the business environment and outlook.
- Overview of strategy.
- Descriptions of trends in market prices of key commodities or raw materials.
- Contrasts of supply, demand and regulatory circumstances between geographic regions.
- Explanations of specific factors influencing the entity's profitability in specific segments.

ISA (NZ) 720 (Revised)

Appendix 2

(Ref: Para. 21–22, A53)

Illustrations of Auditor's Reports Relating to Other Information

- [NZ] Illustration 1: An auditor's report of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not,~~ containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- [NZ] Illustration 2: An auditor's report of a FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- [NZ] Illustration 3: An auditor's report of an entity other than a FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- [NZ] Illustration 4: An auditor's report of a FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- [NZ] Illustration 5: An auditor's report of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not,~~ containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- [NZ] Illustration 6: An auditor's report of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not,~~ containing a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.
- [NZ] Illustration 7: An auditor's report of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not,~~ containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.

INDEPENDENT AUDITOR'S REPORT

[NZ] Illustration 1 – An auditor's report of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not~~, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

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

- Audit of a complete set of financial statements of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not~~, using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised)¹ does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.²
- Key audit matters have been communicated in accordance with ISA (NZ) 701.³
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements⁴

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the

¹ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

² ISA (NZ) 570 ~~(Revised)~~, *Going Concern*

³ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. The Key Audit Matters section is required for FMC reporting entities considered to have a higher level of public accountability only.

⁴ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

ISA (NZ) 720 (Revised)

financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#) (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards (New Zealand))* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

[Key Audit Matters⁵]

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The directors⁶ are responsible for the other information. The other information comprises the [information included in the X report,⁷ but does not include the financial statements and our auditor's report thereon.]

⁵ The Key Audit Matters section is required for FMC reporting entities considered to have a higher level of public accountability only.

⁶ Or other terms that are appropriate in the context of the legal framework for the entity.

⁷ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

ISA (NZ) 720 (Revised)

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements⁸

[Reporting in accordance with ISA (NZ) 700 (Revised)⁹ – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

[The engagement partner on the audit resulting in this independent auditor's report is *[name]*.¹⁰]

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

[Auditor Address]

[Date]

⁸ Throughout these illustrative auditor's reports, the term director may need to be replaced by another term that is appropriate in the context of the legal framework of the entity.

⁹ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹⁰ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA (NZ) 700 (Revised), paragraph 46).

ISA (NZ) 720 (Revised)

[NZ] Illustration 2 – An auditor’s report of a FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.

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

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. Professional and Ethical Standard 1 includes independence requirements that are applicable to audits of financial statements of public interest entities and requires the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements¹¹

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the

¹¹ The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

ISA (NZ) 720 (Revised)

financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#) (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Going Concern

[In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.](#)

[Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.](#)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The directors¹² are responsible for the other information. The other information comprises the X report¹³ (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Y report, which is expected to be made available to us after that date.

¹² Or other terms that are appropriate in the context of the legal framework of the entity.

¹³ A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

ISA (NZ) 720 (Revised)

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

[When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and *[describe actions applicable]*]¹⁴

Directors' Responsibilities for the Financial Statements¹⁵

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.¹⁶

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

[Auditor Address]

[Date]

¹⁴ This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

¹⁵ Or other terms that are appropriate in the context of the legal framework of the entity.

¹⁶ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA (NZ) 700 (Revised), paragraph 46).

ISA (NZ) 720 (Revised)

[NZ] Illustration 3 – An auditor’s report of an entity other than a FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.

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

- Audit of a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained part of the other information prior to the date of the auditor’s report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor’s report.
- The auditor has no other reporting responsibilities required under law or regulation.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs

ISA (NZ) 720 (Revised)

(NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The directors¹⁷ are responsible for the other information. The other information obtained at the date of this auditor's report is [information included in the X report,¹⁸ but does not include the financial statements and our auditor's report thereon].

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Statements¹⁹

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

¹⁷ Or other terms that are appropriate in the context of the legal framework of the particular entity.

¹⁸ A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

¹⁹ Or other terms that are appropriate in the context of the legal framework of the particular entity.

ISA (NZ) 720 (Revised)**Auditor's Responsibilities for the Audit of the Financial Statements**

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

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

[Auditor Address]

[Date]

ISA (NZ) 720 (Revised)

[NZ] Illustration 4 – An auditor’s report of a FMC reporting entity considered to have a higher level of public accountability containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor’s report but expects to obtain other information after the date of the auditor’s report.

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

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*. Professional and Ethical Standard 1 includes independence requirements that are applicable to audits of financial statements of public interest entities and requires the auditor to publicly disclose that the independence requirements applicable to audits of financial statements of public interest entities were applied.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained no other information prior to the date of the auditor’s report but expects to obtain other information after the date of the auditor’s report.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements²⁰

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

²⁰ The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

ISA (NZ) 720 (Revised)

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards-IFRS Accounting Standards](#) (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standard 1. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Going Concern

[In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.](#)

[Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.](#)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The directors²¹ are responsible for the other information. The other information comprises the [information included in the X report,²² but does not include the financial statements and our auditor's report thereon]. The X report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

²¹ Or other terms that are appropriate in the context of the legal framework of the particular entity

²² A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

ISA (NZ) 720 (Revised)

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

[When we read the X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and [*describe actions applicable*].]²³

Directors' Responsibilities for the Financial Statements²⁴

[*Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).*]

Auditor's Responsibilities for the Audit of the Financial Statements

[*Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).*]

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).*]

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

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

[*Auditor Address*]

[*Date*]

²³ This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

²⁴ Or other terms that are appropriate in the context of the legal framework of the particular entity

ISA (NZ) 720 (Revised)

[NZ] Illustration 5 – An auditor’s report of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not~~, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.

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

- Audit of a complete set of financial statements of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not~~, using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 (Revised) does not apply).
- The financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists
- The auditor has no other reporting responsibilities required under law or regulation.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#) (NZ IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in

ISA (NZ) 720 (Revised)

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

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The directors²⁵ are responsible for the other information. The other information comprises the [information included in the X report,²⁶ but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described below, we have concluded that such a material misstatement of the other information exists.

[Description of material misstatement of the other information]

[Key Audit Matters²⁷]

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter in accordance with ISA (NZ) 701.]]

²⁵ Or other terms that are appropriate in the context of the legal framework of the particular entity

²⁶ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

²⁷ The Key Audit Matters section is required for FMC reporting entities considered to have a higher level of public accountability only.

ISA (NZ) 720 (Revised)**Directors' Responsibilities for the Financial Statements²⁸**

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 1 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.²⁹

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

[Auditor Address]

[Date]

²⁸ Or other terms that are appropriate in the context of the legal framework of the particular entity

²⁹ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA (NZ) 700 (Revised), paragraph 46).

ISA (NZ) 720 (Revised)

[NZ] Illustration 6 – An auditor’s report of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not~~, containing an qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.

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

- Audit of a complete set of consolidated financial statements of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not~~, using a fair presentation framework. The audit is a group audit (i.e., ISA (NZ) 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.
- The auditor has no other reporting responsibilities required under law or regulation.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with New Zealand equivalents to ~~International Financial~~

ISA (NZ) 720 (Revised)

Reporting Standards-IFRS Accounting Standards (NZ IFRS).**Basis for Qualified Opinion**

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The directors³⁰ are responsible for the other information. The other information comprises the [information included in the X report,³¹ but does not include the consolidated financial statements and our auditor's report thereon.]

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially

³⁰ Or other terms that are appropriate in the context of the legal framework of the particular entity

³¹ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

ISA (NZ) 720 (Revised)

inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

[Key Audit Matters³²]

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA (NZ) 701.]]

Directors' Responsibilities for the Financial Statements³³

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is [name].³⁴

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

[Auditor Address]

[Date]

³² The Key Audit Matters section is required for FMC reporting entities considered to have a higher level of public accountability only.

³³ Or other terms that are appropriate in the context of the legal framework of the particular entity

³⁴ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA (NZ) 700 (Revised), paragraph 46).

ISA (NZ) 720 (Revised)

[NZ] Illustration 7 – An auditor’s report of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not~~, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor’s report and the adverse opinion on the consolidated financial statements also affects the other information.

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

- Audit of a complete set of consolidated financial statements of any entity, ~~whether a FMC reporting entity considered to have a higher level of public accountability or not~~, using a fair presentation framework. The audit is a group audit (i.e., ISA (NZ) 600 (Revised) applies).
- The consolidated financial statements are prepared by management of the entity in accordance with NZ IFRS (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the consolidated financial statements in ISA (NZ) 210.
- The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern~~ in accordance with ISA (NZ) 570 ~~(Revised)~~.
- Key audit matters have been communicated in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information
- The auditor has no other reporting responsibilities required under law or regulation.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Adverse Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not present fairly (or *do not give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and (*of*) its consolidated financial performance and its consolidated cash flows for the

ISA (NZ) 720 (Revised)

year then ended in accordance with New Zealand equivalents to [International Financial Reporting Standards IFRS Accounting Standards](#) (NZ IFRS).

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under NZ IFRS, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company or any of its subsidiaries.

Going Concern

[In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the consolidated financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.](#)

[Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.](#)

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

The directors³⁵ are responsible for the other information. The other information comprises the [information included in the X report,³⁶ but does not include the consolidated financial statements and our auditor's report thereon.]

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or

³⁵ Or other terms that are appropriate in the context of the legal framework of the particular entity

³⁶ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

ISA (NZ) 720 (Revised)

otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Group should have consolidated XYZ Company and accounted for the acquisition based on provisional amounts. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the X report affected by the failure to consolidate XYZ Company.

[Key Audit Matters³⁷]

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Adverse Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA (NZ) 701.]

Directors' Responsibilities for the Financial Statements³⁸

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA (NZ) 700 (Revised) – see Illustration 2 in ISA (NZ) 700 (Revised).]

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.³⁹

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

[Auditor Address]

[Date]

³⁷ The Key Audit Matters section is required for FMC reporting entities considered to have a higher level of public accountability only.

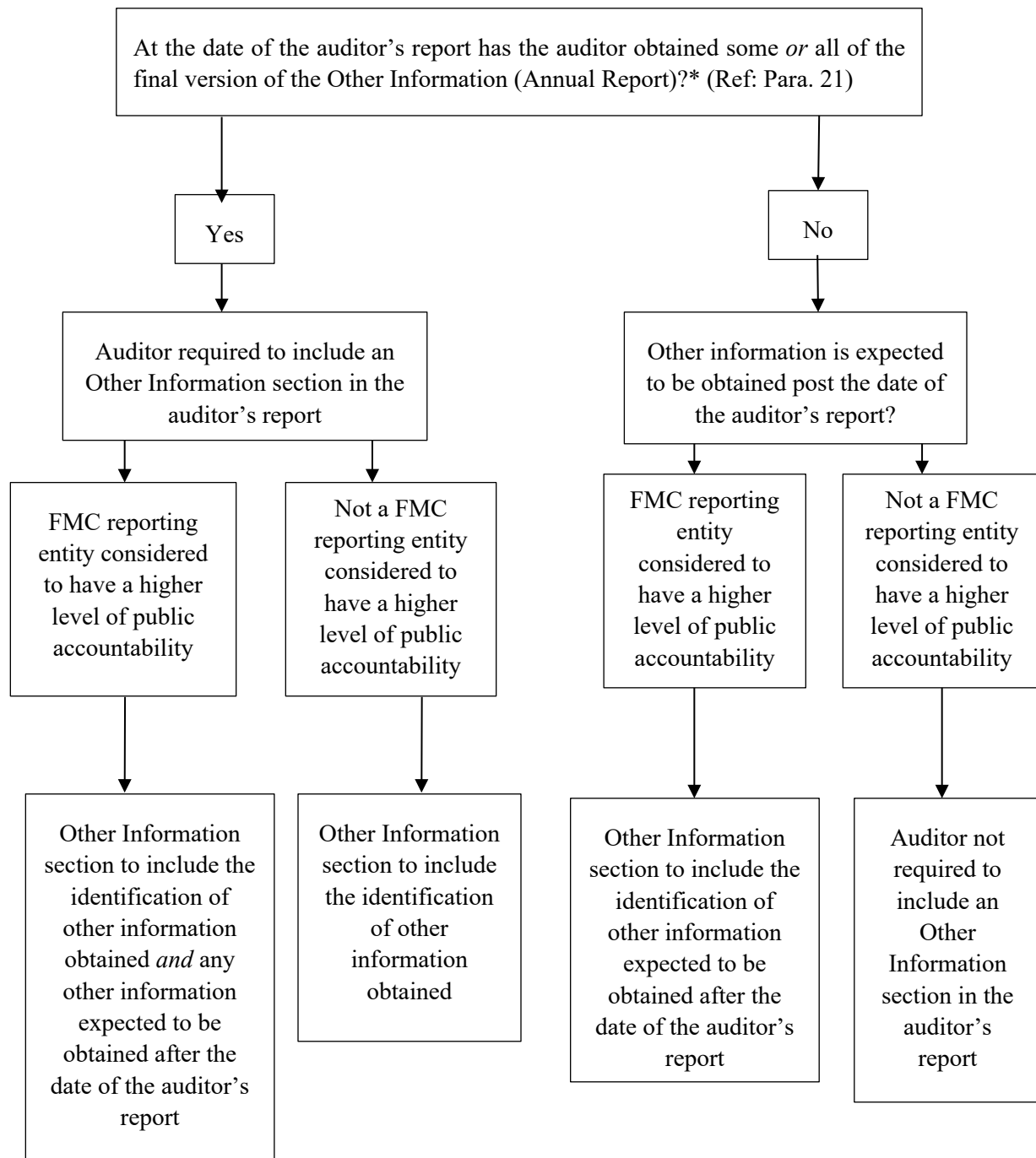
³⁸ Or other terms that are appropriate in the context of the legal framework of the particular entity

³⁹ The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see ISA (NZ) 700 (Revised), paragraph 46).

ISA (NZ) 720 (REVISED)

[NZ] Appendix 3

Decision Tree for Other Information Reporting in the Auditor's Report



* "Final version" of the Other Information (Annual Report) is that approved by those charged with governance (Ref: Para. 13(b), A15).

ISA (NZ) 720 (Revised)

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement is not part of the standard.

This conformity statement accompanies but is not part of ISA (NZ) 720 (Revised).

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*, issued by the International Auditing and Assurance Standards Board (IAASB), ~~an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix "NZ".

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

The following requirements have been amended in New Zealand:

- ISA 580 requires the auditor to obtain written representations from management. In New Zealand, the auditor is required to obtain written representations from those charged with governance. (Ref: Para. NZ13.1);
- Consistent with changes made to ISA (NZ) 700 (Revised), in New Zealand, those charged with governance are generally responsible for ensuring an entity meets its legal obligations in relation to the preparation of the financial statements, therefore the statement that management is responsible for the other information has been amended consistently to refer to the responsibility of those charged with governance. (Ref: Para. NZ22.1)
- ISA 720 (Revised) distinguishes between listed entities publicly traded entities and other entities in the reporting requirements. In New Zealand, references to "listed entities publicly traded entities" have been amended to refer to "FMC reporting entities considered to have a higher level of public accountability". These paragraphs have been labelled as NZ paragraphs.

Compliance with this ISA (NZ) enables compliance with ISA 720 (Revised).

Comparison with Australian Auditing Standards

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information*.

ASA 720 conforms to ISA 720 (Revised).

ISA (NZ) 720 (Revised)

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 720 (Revised)</u> <u><i>The Auditor's Responsibilities Relating to Other Information</i></u>

<u>Principal or amendment</u>	<u>Principal</u>

<u>Consolidated version</u>	<u>No</u>

<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12-(b) of the Financial Reporting Act 2013.</u>

<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>

<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>

<u>Administering agency</u>	<u>External Reporting Board</u>

<u>Date made</u>	<u>24 October 2025</u>

<u>Publication date</u>	<u>30 October 2025</u>

<u>Notification date</u>	<u>30 October 2025</u>

<u>Commencement date</u>	<u>This Standard takes effect on 27 November 2025.</u>

<u>End date</u>	<u>Not applicable</u>

<u>Consolidation as at date</u>	<u>Not applicable</u>

<u>Related instruments</u>	<u>Not applicable.</u>

ISA (NZ) 800 (~~R~~REVISED~~Devised~~)

Issued 10/25

ISSUED 09/16

COMPILED 04/21



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 800 (REVISED)

Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks (~~ISA (NZ) 800 (Revised)~~)

~~This Standard was issued on 22 September 2016 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 20 October 2016.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of financial statements prepared in accordance with special purpose frameworks for periods ending on or after 15 December 2016. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 800 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 800 *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.~~

~~This compilation was prepared in April 2021 and incorporates amendments up to and including June 2020.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 800 (~~Revised~~) issued by the External Reporting Board in September 2016.

ISA (NZ) 800 (REVISED Revised)**COPYRIGHT**

© External Reporting Board (“XRB”) 2016

~~This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.~~

~~Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: enquiries@xrb.govt.nz~~

~~All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org~~

ISBN 978-0-947505-19-6

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 800 (Revised) *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 800 (Revised) issued by the External Reporting Board in September 2016 (as amended to February 2020).

The revision of ISA (NZ) 800 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISA (NZ) 800 (~~REVISED~~Revised)

ISBN

[Insert ISBN here]

ISA (NZ) 800 (~~REVISED~~Revised)

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 800 (REVISED)

SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE
WITH SPECIAL PURPOSE FRAMEWORKS*Issued by the New Zealand Auditing and Assurance Standards Board*

CONTENTS

	Paragraph
History of Amendments	
Commencement and Application	0.1 – 0.2
Introduction	
Scope of this ISA (NZ)	1–3
Effective Date	4– NZ4.1
Objective	5
Definitions	6–7
Requirements	
Considerations When Accepting the Engagement	8
Considerations When Planning and Performing the Audit	9–10
Forming an Opinion and Reporting Considerations	11–14
Application and Other Explanatory Material	
Definition of Special Purpose Framework	A1–A4
Considerations When Accepting the Engagement	A5–A8
Considerations When Planning and Performing the Audit	A9–A12
Forming an Opinion and Reporting Considerations	A13–A21
Appendix 1: Illustrations of Independent Auditor’s Reports on Special Purpose Financial Statements	
~~Appendix 2: Conforming Amendments to Other Pronouncements~~	
~~Accompanying Attachment: Conformity to the International Standards on Auditing~~	

International Standard on Auditing (New Zealand) (ISA (NZ)) 800 (Revised), “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks”, should be read in conjunction with ISA (NZ) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)”.

ISA (NZ) 800 (~~REVISED~~Revised)

History of Amendments

Table of pronouncements – ISA (NZ) 800 (Revised) *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

This table lists the pronouncements establishing and amending ISA (NZ) 800 (Revised).

Pronouncements	Date approved	<u>Application Effective date</u>
International Standard on Auditing (New Zealand) 800 (Revised)	~~October 2025~~ September 2016	~~Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for audits of financial statements prepared in accordance with a special purpose framework for periods ending on or after 15 December 2016.~~
~~Conforming—Amendments—to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1~~	June 2020	Effective on 15 July 2020
~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~	February 2020	Effective for audits of financial statements for periods beginning on or after 15 December 2021

Table of Amended Paragraphs in ISA (NZ) 800 (Revised)		
Paragraph affected	How affected	By...[date]
~~Appendix 1~~	Amended	~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]~~
~~10~~	Amended	~~Conforming and Consequential Amendments to International Standards on Auditing (New Zealand) Arising from ISA (NZ) 315 (Revised 2019)~~

ISA (NZ) 800 (~~REVISED~~Revised)

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 800 (~~REVISED~~Revised)**Introduction****Scope of this ISA (NZ)**

1. The International Standards on Auditing (New Zealand) (ISAs (NZ)) in the 100–700 series apply to an audit of financial statements. This ISA (NZ) deals with special considerations in the application of those ISAs (NZ) to an audit of financial statements prepared in accordance with a special purpose framework.
2. This ISA (NZ) is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. ISA (NZ) 805 (Revised)² deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.
3. This ISA (NZ) does not override the requirements of the other ISAs (NZ); nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

Effective Date

4. ~~This ISA (NZ) is effective for audits of financial statements for periods ending on or after 15 December 2016.~~[\[Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2\]](#)
- NZ4.1 This ~~ISA (NZ) Standard~~ [supersedes—repeals](#) ISA (NZ) 800 ~~(Revised)~~, *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* [issued in September 2016](#).

Objective

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

Definitions

6. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
 - (a) Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework. (Ref: Para. A4)

² ISA (NZ) 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

ISA (NZ) 800 (REVISED Revised)

- (b) Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.³ (Ref: Para. A1–A4)
- 7. Reference to “financial statements” in this ISA (NZ) means “a complete set of special purpose financial statements.” The requirements of the applicable financial reporting framework determine the presentation, structure, and content of the financial statements, and what constitutes a complete set of financial statements. Reference to “special purpose financial statements” includes the related disclosures.

Requirements**Considerations When Accepting the Engagement***Acceptability of the Financial Reporting Framework*

- 8. ISA (NZ) 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.⁴ In an audit of special purpose financial statements, the auditor shall obtain an understanding of: (Ref: Para. A5–A8)
 - (a) The purpose for which the financial statements are prepared;
 - (b) The intended users; and
 - (c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

Considerations When Planning and Performing the Audit

- 9. ISA (NZ) 200 requires the auditor to comply with all ISAs (NZ) relevant to the audit.⁵ In planning and performing an audit of special purpose financial statements, the auditor shall determine whether application of the ISAs (NZ) requires special consideration in the circumstances of the engagement. (Ref: Para. A9–A12)
- 10. ISA (NZ) 315 (Revised 2019) requires the auditor to obtain an understanding of the applicable financial reporting framework and the entity’s accounting policies and the reasons for changes thereto~~the entity’s selection and application of accounting policies~~.⁶ In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.

³ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 13(a).

⁴ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a).

⁵ ISA (NZ) 200, paragraph ~~1820~~.

⁶ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 19(b).

ISA (NZ) 800 (REVISED Revised)**Forming an Opinion and Reporting Considerations**

11. When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in ISA (NZ) 700 (Revised).⁷ (Ref: Para. A13–A19)

Description of the Applicable Financial Reporting Framework

12. ISA (NZ) 700 (Revised) requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.⁸ In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.
13. ISA (NZ) 700 (Revised) deals with the form and content of the auditor's report, including the specific ordering for certain elements. In the case of an auditor's report on special purpose financial statements:
 - (a) The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and
 - (b) If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's⁹ responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

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

14. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. (Ref: Para. A20–A21)

Application and Other Explanatory Material**Definition of Special Purpose Framework (Ref: Para. 6)**

A1. Examples of special purpose frameworks are:

- A tax basis of accounting for a set of financial statements that accompany an entity's tax return;
- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
- The financial reporting provisions established by a regulator to meet the requirements of that regulator; or

⁷ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*:-

⁸ ISA (NZ) 700 (Revised), paragraph 15:-

⁹ Or other term that is appropriate in the context of the legal framework for the engagement:-

ISA (NZ) 800 (REVISED~~Revised~~)

- The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.
- A2. There may be circumstances where a special purpose framework is based on a financial reporting framework established by an authorised or recognised standards setting organisation or by law or regulation, but does not comply with all the requirements of that framework. An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Jurisdiction X. When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the financial reporting framework established by the authorised or recognised standards setting organisation or by law or regulation. In the above example of the contract, the description of the applicable financial reporting framework may refer to the financial reporting provisions of the contract, rather than make any reference to the Financial Reporting Standards of Jurisdiction X.
- A3. In the circumstances described in paragraph A2, the special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework. This is because the special purpose framework may not comply with all the requirements of the financial reporting framework established by the authorised or recognised standards setting organisation or by law or regulation that are necessary to achieve fair presentation of the financial statements.
- A4. Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be special purpose financial statements for purposes of the ISAs (NZ). The requirements in paragraphs 13–14 are designed to avoid misunderstandings about the purpose for which the financial statements are prepared. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of financial statements, or in the notes, or incorporated therein by cross-reference.¹⁰

Considerations When Accepting the Engagement*Acceptability of the Financial Reporting Framework* (Ref: Para. 8)

- A5. In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.
- A6. The applicable financial reporting framework may encompass the financial reporting standards established by an organisation that is authorised or recognised to promulgate standards for special purpose financial statements. In that case, those standards will be presumed acceptable for that purpose if the organisation follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. In some cases, law or regulation may prescribe the financial reporting

¹⁰ ISA (NZ) 200, paragraph 153(f).

ISA (NZ) 800 (REVISED~~Revised~~)

framework to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such entity.

- A7. Where the financial reporting standards referred to in paragraph A6 are supplemented by legislative or regulatory requirements, ISA (NZ) 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist.¹¹
- A8. The applicable financial reporting framework may encompass the financial reporting provisions of a contract, or sources other than those described in paragraphs A6 and A7. In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 of ISA (NZ) 210. In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgement. For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information is not neutral when compared with financial information prepared in accordance with a general purpose framework.

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

- A9. ISA (NZ) 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all ISAs (NZ) relevant to the audit. It also requires the auditor to comply with each requirement of an ISA (NZ) unless, in the circumstances of the audit, the entire ISA (NZ) is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA (NZ) by performing alternative audit procedures to achieve the aim of that requirement.¹²
- A10. Application of some of the requirements of the ISAs (NZ) in an audit of special purpose financial statements may require special consideration by the auditor. For example, in ISA (NZ) 320, judgements about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.¹³ In the case of an audit of special purpose financial statements, however, those judgements are based on a consideration of the financial information needs of the intended users.
- A11. In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a

¹¹ ISA (NZ) 210, paragraph 18.

¹² ISA (NZ) 200, paragraphs ~~146~~, ~~1820~~, and ~~224–235~~.

¹³ ISA (NZ) 320, *Materiality in Planning and Performing an Audit*, paragraph 2.

ISA (NZ) 800 (REVISED~~Revised~~)

threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with ISA (NZ) 320 for purposes of planning and performing the audit of the special purpose financial statements.

- A12. ISA (NZ) 260 (Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate.¹⁴ ISA (NZ) 260 (Revised) notes that, in some cases, all of those charged governance are involved in managing the entity, and the application of the communication requirements is modified to recognise this position.¹⁵ When a complete set of general purpose financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the special purpose financial statements may not be the same as those charged with governance responsible for the oversight of the preparation of those general purpose financial statements.

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

- A13. Appendix 1 to this ISA (NZ) contains illustrations of independent auditor's reports on special purpose financial statements. Other illustrations of auditor's reports may be relevant to reporting on special purpose financial statements (see for example, the Appendices to ISA (NZ) 700 (Revised), ISA (NZ) 705 (Revised),¹⁶ ISA (NZ) 570 (~~Revised~~)¹⁷, ISA (NZ) 720 (Revised), and ISA (NZ) 706 (Revised)).¹⁸

Application of ISA (NZ) 700 (Revised) When Reporting on Special Purpose Financial Statements

- A14. Paragraph 11 of this ISA (NZ) explains that the auditor is required to apply ISA (NZ) 700 (Revised) when forming an opinion and reporting on special purpose financial statements. In doing so, the auditor is also required to apply the reporting requirements in other ISAs (NZ) and may find the special considerations addressed in paragraphs A15–A19 below helpful.

Going Concern

- A15. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions).¹⁹ Depending on the applicable financial reporting framework used in the preparation of the special purpose financial statements, the description in the auditor's report of management's responsibilities²⁰ relating to going concern may need to be adapted as necessary. The description in the auditor's report of the

¹⁴ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*.

¹⁵ ISA (NZ) 260 (Revised), paragraph A8.

¹⁶ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

¹⁷ ISA (NZ) 570 (~~Revised~~), *Going Concern*.

¹⁸ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

¹⁹ ISA (NZ) 570 (~~Revised~~), paragraph 2.

²⁰ See ISA (NZ) 700 (Revised), paragraphs NZ34.1(b) and A489.

ISA (NZ) 800 (REVISED Revised)

auditor's responsibilities²¹ may also need to be adapted as necessary depending on how ISA (NZ) 570 (Revised) applies in the circumstances of the engagement.

Key Audit Matters

A16. [Amended by the NZAuASB].

NZ A16.1 ISA (NZ) 700 (Revised) requires the auditor to communicate key audit matters in accordance with ISA (NZ) 701²² for audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability. For audits of special purpose financial statements, ISA (NZ) 701 only applies when communication of key audit matters in the auditor's report on the special purpose financial statements is required by law or regulation or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on special purpose financial statements, ISA (NZ) 701 applies in its entirety.²³

Other Information

A17. ISA (NZ) 720 (Revised)²⁴ deals with the auditor's responsibilities relating to other information. In the context of this ISA (NZ), reports containing or accompanying the special purpose financial statements—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the special purpose financial statements—are considered to be annual reports for the purpose of ISA (NZ) 720 (Revised). In the case of financial statements prepared using a special purpose framework, the term “similar stakeholders” includes the specific users whose financial information needs are met by the design of the special purpose framework used to prepare the special purpose financial statements. When the auditor determines that the entity plans to issue such a report, the requirements in ISA (NZ) 720 (Revised) apply to the audit of the special purpose financial statements.

Name of the Engagement Partner

A18. [Amended by the NZAuASB].

NZA18.1 The requirement in ISA (NZ) 700 (Revised) for the auditor to include the name of the engagement partner in the auditor's report also applies to audits of special purpose financial statements of FMC reporting entities considered to have a higher level of public accountability. The auditor may be required by law or regulation to include the name of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on special purpose financial statements of entities other than FMC reporting entities considered to have a higher level of public accountability.²⁵

²¹ See ISA (NZ) 700 (Revised), paragraph 39(b)(iv).

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

²³ ISA (NZ) 700 (Revised), paragraph 31.

²⁴ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

²⁵ See ISA (NZ) 700 (Revised), paragraphs NZA46.1 and ~~NZA56.1~~ ~~NZA57.1~~ ~~A62–A64~~.

ISA (NZ) 800 (REVISED Revised)

Inclusion of a Reference to the Auditor's Report on the Complete Set of General Purpose Financial Statements

A19. The auditor may deem it appropriate to refer, in an Other Matter paragraph in the auditor's report on the special purpose financial statements, to the auditor's report on the complete set of general purpose financial statements or to matter(s) reported therein (see ISA (NZ) 706 (Revised)).²⁶ For example, the auditor may consider it appropriate to refer in the auditor's report on the special purpose financial statements to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of general purpose financial statements.

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

A20. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. To avoid misunderstandings, the auditor alerts users of the auditor's report by including an Emphasis of Matter paragraph explaining that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose. ISA (NZ) 706 (Revised) requires this paragraph to be included within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter".²⁷

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

A21. In addition to the alert required by paragraph 14, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. Depending on the law or regulation, this may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the paragraph referred to in paragraph 14 may be expanded to include these other matters, and the heading modified accordingly (see illustrations in Appendix 1 to this ISA (NZ)).

²⁶ ISA (NZ) 706 (Revised), paragraphs 10-11

²⁷ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 9.

Appendix 1

(Ref: Para. A13 and A21)

Illustrations of Independent Auditor's Reports on Special Purpose Financial Statements

- [NZ] Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- [NZ] Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the tax basis of accounting (for purposes of this illustration, a compliance framework).
- [NZ] Illustration 3: An auditor's report on a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

ISA (NZ) 800 (REVISED Revised)

[NZ] Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).

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

- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework). Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- An auditor's report on the complete set of general purpose financial statements was not issued.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (Revised).
- Distribution and use of the auditor's report are restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between the Company and DEF Company ("the contract"). ~~[Opinion section positioned first as required in ISA (NZ) 700 (Revised)]~~

ISA (NZ) 800 (~~REVISED~~Revised)**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. ~~[The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]~~

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company in complying with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Company and DEF Company and should not be distributed to or used by parties other than the Company or DEF Company. Our opinion is not modified in respect of this matter.

Directors' Responsibilities for the Financial Statements¹

The directors are responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section Z of the contract and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

¹ Throughout these illustrative auditor's reports, the term director may need to be replaced by another term that is appropriate in the context of the legal framework for the engagement.

ISA (NZ) 800 (~~REVISED~~Revised)**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Paragraph 41(c) of ISA (NZ) 700 (Revised) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/>

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by directors.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, that we identify during our audit, including any:

- ~~s~~Significant deficiencies in internal ~~control that we identify during our audit;~~
- Identified fraud or suspected fraud; and

² This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

ISA (NZ) 800 (~~REVISED~~Revised)

- Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of the directors.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence.

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

[Auditor address] ~~[Placement of date and address reversed)]~~

[Date]

ISA (NZ) 800 (~~REVISED~~Revised)**[NZ] Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the tax basis of accounting in New Zealand (for purposes of this illustration, a compliance framework).**

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

- Audit of a complete set of financial statements that have been prepared by management of a partnership in accordance with the tax basis of accounting in New Zealand (that is, a special purpose framework) to assist the partners in preparing their individual income tax returns. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (~~Revised~~).
- Distribution of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Partnership (the Partnership), which comprise the balance sheet as at December 31, 20X1 and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Partnership for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with [*describe the applicable income tax law*] of New Zealand. [~~Opinion section positioned first as required in ISA (NZ) 700 (Revised)~~]

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's*

ISA (NZ) 800 (REVISED Revised)

Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Partnership in accordance with Professional and Ethical Standard 1 *-International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. ~~[The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]~~

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

Going Concern

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that those charged with governance's director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the partners of the Partnership in preparing their individual income tax returns. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Partnership and its partners and should not be distributed to parties other than the Partnership or its partners. Our opinion is not modified in respect of this matter.

Responsibilities of [Those ~~C~~charged with ~~G~~governance] for the Financial Statements³

[Those charged with governance] are responsible for the preparation of the financial statements in accordance with the tax basis of accounting and for such internal control as those charged with governance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing the Partnership's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless partners either intend to liquidate the Partnership or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if,

³ Or other terms that are appropriate in the context of the legal framework of the entity.

ISA (NZ) 800 (REVISED Revised)

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Paragraph 41(c) of ISA (NZ) 700 (Revised) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/>

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control.⁴
- Conclude on the appropriateness of the use of the going concern basis of accounting by those charged with governance and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Partnership's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Partnership to cease to continue as a going concern
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

- -Significant deficiencies in internal control that we identify during our audit;
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of those charged with governance.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.

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

⁴ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

ISA (NZ) 800 (~~REVISED~~Revised)

[*Auditor address*] [~~Placement of date and address reversed~~]
[*Date*]

ISA (NZ) 800 (~~REVISED~~Revised)**[NZ] Illustration 3: An auditor's report on a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).**

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

- Audit of a complete set of financial statements of a FMC reporting entity considered to have a higher level of public accountability that have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand).
- Based on the audit evidence obtained, the auditor has concluded that 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~~ in accordance with ISA (NZ) 570 (~~Revised~~). The disclosure of the material uncertainty in the financial statements is adequate.
- Distribution or use of the auditor's report is not restricted.
- The auditor is required by the regulator to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z. ~~[Opinion section positioned first as required in ISA (NZ) 700 (Revised)]~~

ISA (NZ) 800 (REVISED Revised)

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. ~~[The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]~~

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

Emphasis of Matter – Basis of Accounting

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Material Uncertainty Related to Going Concern

We draw attention to Note ~~6~~X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. ~~As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.~~

[Description of how the auditor evaluated the directors' assessment of the entity's ability to continue as a going concern in accordance with ISA 570.]

As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material

ISA (NZ) 800 (REVISED Revised)

Uncertainty Related to Going Concern section above, we have determined the matters described below to be key audit matters to be communicated in our report.

[Description of each key audit matter in accordance with ISA (NZ) 701 as applied to this audit.]

Other Matter

The Company has prepared a separate set of financial statements for the year ended December 31, 20X1 in accordance with New Zealand equivalents to [IFRS Accounting Standards](#)~~International Financial Reporting Standards~~ on which we issued a separate auditor's report to the shareholders of the Company dated March 31, 20X2.

Directors' Responsibilities for the Financial Statements⁵

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of Section Y of Regulation Z⁶ and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Paragraph 41(c) of ISA (NZ) 700 (Revised) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate

⁵ Or other terms that are appropriate in the context of the legal framework for the entity.

⁶ Where the directors' responsibilities are to prepare financial statements that give a true and fair view, this may read: "The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting provisions of section Y of Regulation Z and for such ..."

ISA (NZ) 800 (~~REVISED~~Revised)

authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/>.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.⁷
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, that we identify during our audit, including any:

- ~~-s~~Significant deficiencies in internal control ~~that we identify during our audit~~;
- ~~-Identified fraud or suspected fraud; and~~
- Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of the directors.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a

⁷ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

ISA (NZ) 800 (~~REVISED~~Revised)

matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

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

[*Auditor address*] [~~Placement of date and address reversed~~]

[*Date*]

CONFORMING AMENDMENTS TO OTHER PRONOUNCEMENTS

This appendix sets out conforming amendments to ISA (NZ) 700 (Revised) and other pronouncements issued by the XRB or the NZAuASB as a result of the approval of ISA (NZ) 800 (Revised). Amended paragraphs are shown with new text underlined and deleted text struck through.

ISA (NZ) 700 (Revised), Forming an Opinion and Reporting on Financial Statements**Requirements****Name of the Engagement Partner**

NZ46.1 The name of the engagement partner shall be included in the auditor's report for audits of complete sets of general purpose ~~on~~ financial statements of FMC reporting entities considered to have a higher level of public accountability unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A61–A63)

Application and Other Explanatory Material**Name of the Engagement Partner (Ref: Para. NZ46.1)**

NZA61.1 Professional and Ethical Standard 3 (Amended)⁸ requires that the firm establish policies and procedures to provide reasonable assurance that engagements are performed in accordance with standards issued by the External Reporting Board or the New Zealand Auditing and Assurance Standards Board and applicable legal and regulatory requirements. Notwithstanding these Professional and Ethical Standard 3 (Amended) requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report of a complete set of general purpose ~~on~~ financial statements of a FMC reporting entity considered to have a higher level of public accountability.

NZA62.1 Law, regulation or ISAs (NZ) may require that the auditors' report include the name of the engagement partner responsible for audits other than those of a general purpose financial report ~~financial statements of listed entities~~ FMC reporting entities considered to have a higher level of public accountability. The auditor may be required by law or regulation, or may decide to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to where the auditor practices.

⁸—Professional and Ethical Standard 3 (Amended), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements, paragraph 32.

ISA (NZ) 800 (~~REVISED~~Revised)*~~XRB Au1 Application of Auditing and Assurance Standards~~*

~~In Appendix 2, ISA (NZ) 800 is amended to reflect the issue of ISA (NZ) 800 (Revised).~~

ISA (NZ) 800 (~~REVISED~~Revised)**ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING**

This conformity statement is not part of the Standard.

~~This conformity statement accompanies but is not part of ISA (NZ) 800 (Revised).~~

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 800 (Revised) *Special Purpose Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

Compliance with this ISA (NZ) enables compliance with ISA 800 (Revised).

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 800 *Special Considerations – Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks*.

ASA 800 conforms to ISA 800 (Revised).

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 800 (Revised)</u> <u><i>Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 805 (REVISED)

Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement (~~ISA (NZ) 805 (Revised)~~)

~~This Standard was issued on 22 September 2016 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 20 October 2016.~~

~~An auditor that is required to apply this Standard is required to apply it for audits of single financial statements or of specific elements, accounts or items for periods ending on or after 15 December 2016. In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement prepared as at a specific date, this Standard is effective for audits of such information prepared as at a date on or after 15 December 2016. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 805 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.~~

~~This compilation was prepared in June 2023 and incorporates amendments up to and including June 2022.~~

~~This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.~~

~~In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.~~

~~This Standard is secondary legislation for the purposes of the Legislation Act 2019.~~

~~This Standard, when applied, repeals the current ISA (NZ) 200 issued by the External Reporting Board in September 2016.~~

ISA (NZ) 805 (Revised)**COPYRIGHT**

© External Reporting Board (“XRB”) 2016

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address:
enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-0-947505-20-2

ISA (NZ) 805 (Revised)**Explanatory note**

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 805 (Revised) *Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 805 (Revised) issued by the External Reporting Board in September 2016 (as amended to June 2022).

The revision of ISA (NZ) 805 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 805 (Revised)**INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 805 (REVISED)****SPECIAL CONSIDERATIONS-AUDIT OF SINGLE FINANCIAL STATEMENTS
AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT***Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1–3
Effective Date	4-NZ4.1
Objective	5
Definitions	6
Requirements	
Considerations When Accepting the Engagement	7–9
Considerations When Planning and Performing the Audit	10
Forming an Opinion and Reporting Considerations	11–17
Application and Other Explanatory Material	
Scope of this ISA (NZ)	A1–A4
Considerations When Accepting the Engagement	A5–A9
Considerations When Planning and Performing the Audit	A10–A15
Forming an Opinion and Reporting Considerations	A16–A28
Appendix 1: Examples of Specific Elements, Accounts or Items of a Financial Statement	
Appendix 2: Illustrations of Independent Auditor’s Reports on a Single Financial Statement and on a Specific Element of a Financial Statement	
~~Appendix 3: Conforming Amendments Other Pronouncements~~	
~~Accompanying Attachment: Conformity to the International Standards on Auditing~~	

International Standard on Auditing (New Zealand) (ISA (NZ)) 805 (Revised), “*Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*”, should be read in

ISA (NZ) 805 (Revised)

conjunction with ISA (NZ) 200, [“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing \(New Zealand\)”](#).

ISA (NZ) 805 (Revised)

History of Amendments

Table of pronouncements – ISA (NZ) 805 (Revised) *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement Forming an Opinion and Reporting on Financial Statements*

This table lists the pronouncements establishing and amending ISA (NZ) 805 (Revised).

Pronouncements	Date approved	<u>Application Effective date</u>
International Standard on Auditing (New Zealand) 805 (Revised)	~~October 2025~~ September 2016	~~Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for financial reporting periods ending on or after 15 December 2016.~~ In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement at a specific date, effective for audits of such information prepared as at a date on or after 15 December 2016.
~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1~~	~~June 2020~~	~~Effective on 15 July 2020.~~
~~Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects~~	~~July 2021~~	~~Effective for audits of financial statements for periods beginning on or after 15 December 2022.~~
~~Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised)~~	~~June 2022~~	~~Effective for audits of group financial statements for periods beginning on or after 15 December 2023.~~

Table of Amended Paragraphs in ISA (NZ) 805 (Revised)		
Paragraph affected	How affected	By...[date]
Appendix 2	Amended	Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]

ISA (NZ) 805 (Revised)

Table of Amended Paragraphs in ISA (NZ) 805 (Revised)		
A5	Amended	Conforming Amendments to International Standards on Auditing (New Zealand) and Other Pronouncements Arising from the Quality Management Projects [July 2021]
2, Footnote 2	Amended	Conforming and Consequential Amendments to ISAs (NZ) and Other Pronouncements arising from ISA (NZ) 600 (Revised) [June 2022]

ISA (NZ) 805 (Revised)

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

- 0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 805 (Revised)

Introduction

Scope of this ISA (NZ)

1. The International Standards on Auditing (New Zealand) (ISAs (NZ)) in the 100–700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This ISA (NZ) deals with special considerations in the application of those ISAs (NZ) to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, ISA (NZ) 800 (Revised)² also applies to the audit. (Ref: Para. A1–A4)
2. This ISA (NZ) does not apply to circumstances in which audit procedures are performed by a component auditor on the financial information of a component for purposes of an audit of group financial statements (see ISA (NZ) 600 (Revised)).³
3. This ISA (NZ) does not override the requirements of the other ISAs (NZ); nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

Effective Date

4. ~~This ISA (NZ) is effective for audits of single financial statements or of specific elements, accounts or items for periods ending on or after 15 December 2016. In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement prepared as at a specific date, this ISA (NZ) is effective for audits of such information prepared as at a date on or after 15 December 2016. [Note: For the effective dates of paragraphs changed or added by an Amending Standard see the History of Amendments].~~ [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]

NZ4.1 This ~~ISA (NZ) Standard~~ **supersedes** ~~ISA (NZ) 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* issued in September 2016.~~

Objective

5. The objective of the auditor, when applying ISAs (NZ) in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:
 - (a) The acceptance of the engagement;
 - (b) The planning and performance of that engagement; and

² ISA (NZ) 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

³ ISA (NZ) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

ISA (NZ) 805 (Revised)

- (c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement.

Definitions

- 6. For purposes of this ISA (NZ), reference to:
 - (a) “Element of a financial statement” or “element” means an “element, account or item of a financial statement;”
 - (b) “New Zealand equivalents to [IFRS Accounting Standards](#)~~International Financial Reporting Standards~~” means the New Zealand equivalents to [IFRS Accounting Standards](#)~~International Financial Reporting Standards~~ (NZ IFRSs) issued by the New Zealand Accounting Standards Board; and
 - (c) A single financial statement or to a specific element of a financial statement includes the related disclosures (Ref: Para. A2).

Requirements**Considerations When Accepting the Engagement***Application of ISAs (NZ)*

- 7. ISA (NZ) 200 requires the auditor to comply with all ISAs (NZ) relevant to the audit.⁴ In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity’s complete set of financial statements. If the auditor is not also engaged to audit the entity’s complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with ISAs (NZ) is practicable. (Ref: Para. A5–A6)

Acceptability of the Financial Reporting Framework

- 8. ISA (NZ) 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.⁵ In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element. (Ref: Para. A7)

Form of Opinion

- 9. ISA (NZ) 210 requires that the agreed terms of the audit engagement include the expected form of any reports to be issued by the auditor.⁶ In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor shall consider

⁴ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 18

⁵ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

⁶ ISA (NZ) 210, paragraph 10(e)

ISA (NZ) 805 (Revised)

whether the expected form of opinion is appropriate in the circumstances. (Ref: Para. A8–A9)

Considerations When Planning and Performing the Audit

10. ISA (NZ) 200 states that ISAs (NZ) are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.^{7,8} In planning and performing the audit of a single financial statement or of a specific element of a financial statement, the auditor shall adapt all ISAs (NZ) relevant to the audit as necessary in the circumstances of the engagement. (Ref: Para. A10–A15)

Forming an Opinion and Reporting Considerations

11. When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in ISA (NZ) 700 (Revised),⁹ and, when applicable, ISA (NZ) 800 (Revised) adapted as necessary in the circumstances of the engagement. (Ref: Para. A16–A22)

Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of Those Financial Statements

12. If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.
13. The audited single financial statement or the audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements. If the auditor concludes that the presentation of the single financial statement or of the specific element of a financial statement does not differentiate it sufficiently from the complete set of financial statements, the auditor shall ask management to rectify the situation. Subject to paragraphs 15 and 16, the auditor shall also differentiate the opinion on the single financial statement or on the specific element of a financial statement from the opinion on the complete set of financial statements. The auditor shall not issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement until satisfied with the differentiation.

Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements for the Audit of the Single Financial Statement or the Specific Element of a Financial Statement and for the Auditor's Report Thereon

14. If the auditor's report on an entity's complete set of financial statements includes:
 - (a) A modified opinion in accordance with ISA (NZ) 705 (Revised),¹⁰

⁷ ISA (NZ) 200, paragraph 2

⁸ ISA (NZ) 200, paragraph 153(f), explains that the term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework.

⁹ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹⁰ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

ISA (NZ) 805 (Revised)

- (b) An Emphasis of Matter paragraph or an Other Matter paragraph in accordance with ISA (NZ) 706 (Revised);¹¹
- (c) A Material Uncertainty Related to Going Concern section in accordance with ISA (NZ) 570-~~(Revised)~~;¹²
- (d) Communication of key audit matters in accordance with ISA (NZ) 701;¹³ or
- (e) A statement that describes an uncorrected material misstatement of the other information in accordance with ISA (NZ) 720 (Revised);¹⁴

the auditor shall consider the implications, if any, that these matters have for the audit of the single financial statement or of the specific element of a financial statement and for the auditor's report thereon. (Ref: Para. A23-A27)

Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements

15. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, ISA (NZ) 705 (Revised) does not permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element of those financial statements.¹⁵ This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole. (Ref: Para. A28)
16. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element of those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:
 - (a) The auditor is not prohibited by law or regulation from doing so;
 - (b) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and
 - (c) The element does not constitute a major portion of the entity's complete set of financial statements.
17. The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.

¹¹ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraph and Other Matter Paragraphs in the Independent Auditor's Report*

¹² ISA (NZ) 570 ~~(Revised)~~, *Going Concern*, paragraphs ~~22-35-36~~

¹³ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraph 13

¹⁴ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraph 22(e)(ii)

¹⁵ ISA (NZ) 705 (Revised), paragraph 15

Application and Other Explanatory Material

Scope of this ISA (NZ) (Ref: Para. 1, 6(c))

- A1. ISA (NZ) 200 defines the term “historical financial information” as information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.¹⁶
- A2. ISA (NZ) 200 defines the term “financial statements” as a structured representation of historical financial information, including disclosures, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.¹⁷ As noted in paragraph 6(c), reference to a single financial statement or specific element of a financial statement includes the related disclosures.
- A3. ISAs (NZ) are written in the context of an audit of financial statements;¹⁸ they are to be adapted as necessary in the circumstances when applied to an audit of other historical financial information, such as a single financial statement or a specific element of a financial statement. This ISA (NZ) assists in this regard. (Appendix 1 lists examples of such other historical financial information.)
- A4. A reasonable assurance engagement other than an audit of historical financial information is performed in accordance with International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3000 (Revised).¹⁹

Considerations When Accepting the Engagement

Application of ISAs (NZ) (Ref: Para. 7)

- A5. ISA (NZ) 200 requires the auditor to comply with (a) relevant ethical requirements, including those related to independence, relating to financial statement audit engagements, and (b) all ISAs (NZ) relevant to the audit. It also requires the auditor to comply with each requirement of an ISA (NZ) unless, in the circumstances of the audit, the entire ISA (NZ) is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart

¹⁶ ISA (NZ) 200, paragraph 153(g)

¹⁷ ISA (NZ) 200, paragraph 153(f)

¹⁸ ISA (NZ) 200, paragraph 2

¹⁹ ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

ISA (NZ) 805 (Revised)

from a relevant requirement in an ISA (NZ) by performing alternative audit procedures to achieve the aim of that requirement.²⁰

- A6. Compliance with the requirements of ISAs (NZ) relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records. In the case of an audit of a specific element of a financial statement, certain ISAs (NZ) require audit work that may be disproportionate to the element being audited. For example, although the requirements of ISA (NZ) 570 (Revised) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial statement in accordance with ISAs (NZ) may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

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

- A7. A single financial statement or a specific element of a financial statement may be prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements (for example, NZ IFRSs). If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.

Form of Opinion (Ref: Para. 9)

- A8. The form of opinion to be expressed by the auditor depends on the applicable financial reporting framework and any applicable laws or regulations.²¹ In accordance with ISA (NZ) 700 (Revised):²²
- (a) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, uses one of the following phrases:
 - (i) the financial statements present fairly, in all material respects, in accordance with [the applicable financial reporting framework]; or

²⁰ ISA (NZ) 200, paragraphs 164, 2048, and 224–235

²¹ ISA (NZ) 200, paragraph 8

²² ISA (NZ) 700 (Revised), paragraphs 25–26

ISA (NZ) 805 (Revised)

- (ii) the financial statements give a true and fair view in accordance with [the applicable financial reporting framework]; and
 - (b) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a compliance framework, the auditor's opinion states that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].
- A9. In the case of a single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the specific element of the financial statement. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an authorised or recognised standards setting organisation for the preparation of a complete set of financial statements (for example, NZ IFRSs). The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework. Factors that may affect the auditor's consideration as to whether to use the phrases "presents fairly, in all material respects," or "gives a true and fair view" in the auditor's opinion include:
- Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.
 - Whether the single financial statement or the specific element of a financial statement will:
 - Comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the presentation of the financial statement or the specific element of a financial statement include the related disclosures.
 - If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.

The auditor's decision as to the expected form of opinion is a matter of professional judgement. It may be affected by whether use of the phrases "presents fairly, in all material respects," or "gives a true and fair view" in the auditor's opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

Considerations When Planning and Performing the Audit (Ref: Para. 10)

- A10. The relevance of each of the ISAs (NZ) requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, ISAs (NZ) such as ISA (NZ) 240,²³ ISA (NZ) 550²⁴ and ISA (NZ) 570 (Revised) are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

²³ ISA (NZ) 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

²⁴ ISA (NZ) 550, *Related Parties*

ISA (NZ) 805 (Revised)

A11. ISA (NZ) 260 (Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate.²⁵ ISA (NZ) 260 (Revised) notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognise this position.²⁶ When a complete set of financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the single financial statement or the element may not be the same as those charged with governance responsible for the oversight of the preparation of the complete set of financial statements.

A12. [Amended by the NZAuASB.]

NZA12.1 Furthermore, ISAs (NZ) are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to the audit of a single financial statement²⁷ or of a specific element of a financial statement. For example, written representations from those charged with governance about the complete set of financial statements would be replaced by written representations about the presentation of the financial statement or the element in accordance with the applicable financial reporting framework.

A13. Matters included in the auditor's report on the complete set of financial statements may have implications for the audit of a single financial statement or of an element of a financial statement (see paragraph 14). When planning and performing an audit of a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element. ISAs (NZ), however, require the auditor to plan and perform the audit of the financial statement or element to obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.

A14. The individual financial statements that comprise a complete set of financial statements, and many of the specific elements of those financial statements, including their related disclosures, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.

A15. Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements.

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

A16. ISA (NZ) 700 (Revised) requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in

²⁵ ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 11

²⁶ ISA (NZ) 260 (Revised), paragraph 10(b), 13, A1 (third bullet), A2 and A8

²⁷ ISA (NZ) 200, paragraph 2

ISA (NZ) 805 (Revised)

the financial statements.²⁸ In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

- A17. Appendix 2 contains illustrations of independent auditor's reports on a single financial statement and on a specific element of a financial statement. Other illustrations of auditor's reports may be relevant to reporting on a single financial statement or on a specific element of a financial statement (see, for example, the Appendices to ISA (NZ) 700 (Revised), ISA (NZ) 705 (Revised), ISA (NZ) 570—(Revised), ISA (NZ) 720 (Revised), and ISA (NZ) 706 (Revised)).

Application of ISA (NZ) 700 (Revised) When Reporting on a Single Financial Statement or on a Specific Element of a Financial Statement

- A18. Paragraph 11 of this ISA (NZ) explains that the auditor is required to apply the requirements in ISA (NZ) 700 (Revised), adapted as necessary in the circumstances of the engagement, when forming an opinion and reporting on a single financial statement or on a specific element of a financial statement. In doing so, the auditor is also required to apply the reporting requirements in other ISAs (NZ) adapted as necessary in the circumstances of the engagement, and may find the considerations addressed in paragraphs A19–A21 below helpful.

Going Concern

- A19. Depending on the applicable financial reporting framework used in the preparation of the single financial statement or the specific element of a financial statement, the description in the auditor's report of management's responsibilities²⁹ relating to going concern may need to be adapted as necessary. The description in the auditor's report of the auditor's responsibilities³⁰ may also need to be adapted as necessary depending on how ISA (NZ) 570 (Revised) applies in the circumstances of the engagement.

Key Audit Matters

- A20. [Amended by the NZAuASB].

NZ A20.1 ISA (NZ) 700 (Revised) requires the auditor to communicate key audit matters in accordance with ISA (NZ) 701³¹ for audits of complete sets of general purpose financial statements of FMC reporting entities considered to have a higher level of public accountability.³² For audits of a single financial statement or a specific element of a financial statement, ISA (NZ) 701 only applies when communication of key audit matters in the auditor's report on such financial statements or elements is required by law or regulation, or the auditor otherwise decides to communicate key audit matters. When key

²⁸ ISA (NZ) 700 (Revised), paragraph 13(e)

²⁹ ISA (NZ) 700 (Revised) paragraphs 34(b) and A489

³⁰ [ISA \(NZ\) 700 \(Revised\) paragraph 39\(b\)\(iv\)](#)

³¹ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

³² ISA (NZ) 700 (Revised), paragraph 30

ISA (NZ) 805 (Revised)

audit matters are communicated in the auditor's report on a single financial statement or a specific element of a financial statement, ISA (NZ) 701 applies in its entirety.³³

Other Information

A21. ISA (NZ) 720 (Revised) deals with the auditor's responsibilities relating to other information. In the context of this ISA (NZ), reports containing or accompanying the single financial statement or specific element of a financial statement—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the single financial statement or the specific element of a financial statement—are considered to be annual reports for purposes of ISA (NZ) 720 (Revised). When the auditor determines that the entity plans to issue such a report, the requirements in ISA (NZ) 720 (Revised) apply to the audit of the single financial statement or the element.

Name of the Engagement Partner

A22. [Amended by the NZAuASB].

NZA22.1 The requirement in ISA (NZ) 700 (Revised) for the auditor to include the name of the engagement partner in the auditor's report also applies to audits of single financial statements of FMC reporting entities considered to have a higher level of public accountability. The auditor may be required by law or regulation to include the name of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on a single financial statement or on an element of a financial statement of entities other than FMC reporting entities considered to have a higher level of public accountability.³⁴

Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of a Financial Statement (Ref: Para.14)

Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements for the Audit of the Single Financial Statement or the Specific Element of a Financial Statement and for the Auditor's Report Thereon

A23. Paragraph 14 requires the auditor to consider the implications, if any, of certain matters included in the auditor's report on the complete set of financial statements for the audit of the single financial statement or the specific element of a financial statement and for the auditor's report thereon. Considering whether a matter included in the auditor's report on the complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element of a financial statement involves professional judgement.

A24. Factors that may be relevant in considering those implications include:

- The nature of the matter(s) being described in the auditor's report on the complete set of financial statements and the extent to which it relates to what is included in the single financial statement or a specific element of a financial statement.
- The pervasiveness of the matter(s) described in the auditor's report on the complete set of financial statements.

³³ See ISA (NZ) 700 (Revised), paragraph 31

³⁴ See ISA (NZ) 700 (Revised), paragraphs NZ46.1 and ~~NZA56.1–NZA57.1~~A62–A64

ISA (NZ) 805 (Revised)

- The nature and extent of the differences between the applicable financial reporting frameworks.
- The extent of the difference between the period(s) covered by the complete set of the financial statements compared to the period(s) or dates of the single financial statement or the element of a financial statement.
- The time elapsed since the date of the auditor's report on the complete set of the financial statements.

A25. For example, in the case when there is a qualification of the auditor's opinion in relation to accounts receivable in the auditor's report on the complete set of financial statements, and the single financial statement includes accounts receivable, or the specific element of a financial statement relates to accounts receivable, it is likely that there would be implications for the audit. On the other hand, if the qualification of the auditor's opinion on the complete set of financial statements relates to classification of long-term debt, then it is less likely that there would be implications for an audit of the single financial statement that is the income statement, or if the specific element of the financial statement relates to accounts receivable.

A26. Key audit matters that are communicated in the auditor's report on the complete set of financial statements may have implications for an audit of a single financial statement or the specific element of the financial statement. The information included in the Key Audit Matters section about how the matter was addressed in the audit of the complete set of financial statements may be useful to the auditor's determination of how to address the matter when it is relevant to the audit of the single financial statement or the specific element of the financial statement.

Inclusion of a reference to the auditor's report on the complete set of financial statements

A27. Even when certain matters included in the auditor's report on the complete set of financial statements do not have implications for the audit of, or for the auditor's report on, the single financial statement or the specific element of a financial statement, the auditor may deem it appropriate to refer to the matter(s) in an Other Matter paragraph in an auditor's report on the single financial statement or on the specific element of a financial statement (see ISA (NZ) 706 (Revised)).³⁵ For example, the auditor may consider it appropriate to refer in the auditor's report on the single financial statement or a specific element of the financial statement to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of financial statements.

Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements (Ref: Para. 15)

A28. In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, where relevant, and an unmodified opinion regarding the financial position is permitted since the

³⁵ ISA (NZ) 706 (Revised), paragraphs 8 and 10

ISA (NZ) 805 (Revised)

disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the financial statements as a whole.³⁶

³⁶ ISA (NZ) 510, *Initial Audit Engagements—Opening Balances*, paragraph A8, and ISA (NZ) 705 (Revised), paragraph A16

Appendix 1

(Ref: Para. A3)

Examples of Specific Elements, Accounts or Items of a Financial Statement

- Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for “incurred but not reported” claims in an insurance portfolio, including related notes.
- A schedule of externally managed assets and income of a private pension plan, including related notes.
- A schedule of net tangible assets, including related notes.
- A schedule of disbursements in relation to a lease property, including explanatory notes.
- A schedule of profit participation or employee bonuses, including explanatory notes.

Appendix 2

(Ref: Para. A16)

Illustrations of Independent Auditor's Reports on a Single Financial Statement and on a Specific Element of a Financial Statement

- [NZ] Illustration 1: An auditor's report on a single financial statement of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).
- [NZ] Illustration 2: An auditor's report on a single financial statement of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a special purpose framework (for purposes of this illustration, a fair presentation framework).
- [NZ] Illustration 3: An auditor's report on a specific element of a financial statement of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a special purpose framework (for purposes of this illustration, a compliance framework).

[NZ] Illustration 1: An auditor's report on a single financial statement of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework)

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

- Audit of a balance sheet (that is, a single financial statement) of an entity other than a FMC reporting entity considered to have a higher level of public accountability.
- The balance sheet has been prepared by management of the entity in accordance with the requirements of the applicable financial reporting framework issued by the New Zealand Accounting Standards Board relevant to preparing a balance sheet.
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The applicable financial reporting framework is a fair presentation framework designed to meet the common financial information needs of a wide range of users.
- The auditor has determined that it is appropriate to use the phrase "presents fairly, in all material respects," in the auditor's opinion.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including international Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (~~Revised~~). The disclosure of the material uncertainty in the single financial statement is adequate.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701 in the context of the audit of the balance sheet.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

We have audited the balance sheet of ABC Company (the Company) as at December 31, 20X1 and notes to the financial statement, including a summary of significant accounting policies (together "the financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the Company as at December 31, 20X1 in accordance with those requirements of the [applicable financial reporting framework issued by the New Zealand Accounting Standards

ISA (NZ) 805 (REVISED Revised)

Board] relevant to preparing such a financial statement. ~~[Opinion section positioned first as required in ISA (NZ) 700 (Revised)]~~

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. ~~[The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]~~

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

Material Uncertainty Related to Going Concern

We draw attention to Note ~~6X~~ in the financial statement, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note ~~6X~~, these events or conditions, along with other matters as set forth in Note ~~6X~~, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

-Our opinion is not modified in respect of this matter.

In the context of our audit of the financial statements as a whole, and in forming our opinion thereon, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statement is appropriate.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the Company's ability to continue as a going concern.

Directors' Responsibilities for the Financial Statement³⁷

The directors are responsible for the preparation and fair presentation of the financial statement in accordance with those requirements of the [applicable financial reporting framework issued by the New Zealand Accounting Standards Board] relevant to preparing such a financial statement, and for such internal control as the directors determine is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statement

³⁷ Throughout these illustrative auditor's reports, the term directors may need to be replaced by another term that is appropriate in the context of the legal framework of the entity or the engagement.

ISA (NZ) 805 (~~REVISED~~Revised)

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

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

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

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

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.³⁸
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, [that we identify during our audit](#), including any:

³⁸ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statement.

ISA (NZ) 805 (~~REVISED~~Revised)

- Significant deficiencies in internal control that we identify during our audit;
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of the directors.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence.

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

[Auditor address] ~~[Placement of date and address reversed)]~~

[Date]

ISA (NZ) 805 (~~REVISED~~Revised)**[NZ] Illustration 2: An auditor's report on a single financial statement of an entity other than a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a special purpose framework.**

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

- Audit of a statement of cash receipts and disbursements (that is, a single financial statement) of an entity other than a FMC reporting entity considered to have a higher level of public accountability.
- An auditor's report on the complete set of financial statements was not issued.
- The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. Management has a choice of financial reporting frameworks.
- The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.³⁹
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The auditor has determined that it is appropriate to use the phrase "presents fairly, in all material respects," in the auditor's opinion.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Distribution or use of the auditor's report is not restricted.
- The going concern basis of accounting is not relevant in the preparation of the statement of cash receipts and disbursements. Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701 in the context of the audit of the statement of cash receipts and disbursements.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

We have audited the statement of cash receipts and disbursements of ABC Company (the Company) for the year ended December 31, 20X1 and notes to the statement of cash receipts and

³⁹ ISA (NZ) 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

ISA (NZ) 805 (REVISED Revised)

disbursements, including a summary of significant accounting policies (together “the financial statement”).

In our opinion, the accompanying financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Company for the year ended December 31, 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

~~[Opinion section positioned first as required in ISA (NZ) 700 (Revised)]~~

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. ~~[The first and last sentences in this section used to be in the Auditor’s Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in ISA (NZ) 700 (Revised).]~~

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

Emphasis of Matter – Basis of Accounting

We draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Directors’ Responsibilities for the Financial Statement⁴⁰

The directors are responsible for preparation and fair presentation of the financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances, and for such internal control as the directors determine is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

~~In preparing the financial statement, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.~~

Auditor’s Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee

⁴⁰ Or other terms that are appropriate in the context of the legal framework of the entity or the engagement.

ISA (NZ) 805 (~~REVISED~~Revised)

that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

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

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

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

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.⁴¹
- ~~Conclude on the appropriateness of the use of the going concern basis of accounting by the directors, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.~~
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, ~~that we identify during our audit,~~ including any:

- ~~S~~significant deficiencies in internal control ~~that we identify during our audit;~~
- Identified fraud or suspected fraud; and
- Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of the directors.

⁴¹ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statement.

ISA (NZ) 805 (~~REVISED~~Revised)

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence.

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

[Auditor address] ~~[Placement of date and address reversed)]~~

[Date]

ISA (NZ) 805 (REVISED Revised)

[NZ] Illustration 3: An auditor's report on a specific element of a financial statement of a FMC reporting entity considered to have a higher level of public accountability prepared in accordance with a special purpose framework.

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

- Audit of an accounts receivable schedule (that is, element, account or item of a financial statement).
- The financial information has been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework designed to meet the financial information needs of specific users.⁴²
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* comprises all of the relevant ethical requirements that apply to the audit.
- Distribution of the auditor's report is restricted.
- The going concern basis of accounting is not relevant in the preparation of the accounts receivable schedule. Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided to communicate key audit matters in accordance with ISA (NZ) 701 in the context of the audit of the accounts receivable schedule.
- The auditor has determined that there is no other information (i.e., the requirements of ISA (NZ) 720 (Revised) do not apply).
- The auditor has no other reporting responsibilities required under local law or regulation.

INDEPENDENT AUDITOR'S REPORT

[To the Shareholders of ABC Company or Other Appropriate Addressee]

Opinion

We have audited the accounts receivable schedule of ABC Company (the Company) as at December 31, 20X1 ("the schedule").

In our opinion, the financial information in the schedule of the Company as at December 31, 20X1 is prepared, in all material respects, in accordance with [describe the financial reporting provisions established by the regulator]. **[Opinion section positioned first as required ISA (NZ) 700 (Revised)]**

⁴² ISA (NZ) 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

ISA (NZ) 805 (~~REVISED~~Revised)**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Schedule* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. ~~[The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after opinion section as required in ISA (NZ) 700 (Revised).]~~

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

Emphasis of Matter – Basis of Accounting and Restriction on Distribution

We draw attention to Note X to the schedule, which describes the basis of accounting. The schedule is prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for the Company and Regulator DEF and should not be distributed to parties other than the Company or Regulator DEF. Our opinion is not modified in respect of this matter.

Directors' Responsibilities for the Schedule⁴³

The directors are responsible for the preparation of the schedule in accordance with [describe the financial reporting provisions established by the regulator], and for such internal control as the directors determine is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

~~In preparing the schedule, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.~~

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this schedule.

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

Paragraph 41(c) explains that when law, regulation or ISAs (NZ) expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with,

⁴³ Or other terms that are appropriate in the context of the legal framework of the entity.

ISA (NZ) 805 (~~REVISED~~Revised)

the description of the auditor's responsibilities below. Paragraph NZ A57.1 states that when the auditor refers to a description of the auditor's responsibilities on a website, the appropriate authority is the External Reporting Board and the website address is <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/>

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

- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.⁴⁴
- ~~Conclude on the appropriateness of the use of the going concern basis of accounting by the directors, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the schedule or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.~~
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, ~~that we identify during our audit~~, including any:

- ~~significant deficiencies in internal control that we identify during our audit;~~
- ~~Identified fraud or suspected fraud; and~~
- ~~Other matters related to fraud that are, in the auditor's judgment, relevant to the responsibilities of the directors.~~

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is [name].

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

[Auditor address] [~~Placement of date and address reversed~~]

⁴⁴ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the schedule.

ISA (NZ) 805 (~~REVISED~~Revised)

[Date]

CONFORMING AMENDMENTS TO OTHER PRONOUNCEMENTS

This appendix sets out conforming amendments to other pronouncements issued by the XRB or the NZAuASB as a result of the approval of ISA (NZ) 805 (Revised).

XRB Au1 Application of Auditing and Assurance Standards

In Appendix 2, ISA (NZ) 805 is amended to reflect the issue of ISA (NZ) 805 (Revised).

ISA (NZ) 805 (~~REVISED~~Revised)**ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING**

This conformity statement is not part of the Standard.

This conformity statement accompanies but is not part of ISA (NZ) 805 (Revised).

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 805 (Revised) *Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, issued by the International Auditing and Assurance Standards Board (~~IAASB~~), ~~an independent standard-setting board of the International Federation of Accountants (IFAC)~~.

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.
Compliance with this ISA (NZ) enables compliance with ISA 805 (Revised).

Comparison with Australian Auditing Standards

In Australia, the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 805 *Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

ASA 805 conforms to ISA 805 (Revised) and ISA (NZ) 805 (Revised).

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 805 (Revised)</u> <u><i>Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i></u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 810 (REVISED)

Engagements to Report on Summary Financial Statements (~~ISA (NZ) 810 (Revised)~~)

~~This Standard was issued on 22 September 2016 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.~~

~~This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 20 October 2016.~~

~~An auditor that is required to apply this Standard is required to apply it for engagements to report on summary financial statements for periods ending on or after 15 December 2016. However, early adoption is permitted.~~

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

~~This Standard has been issued as a result of International Standard on Auditing 805 being revised.~~

~~This Standard, when applied, supersedes International Standard on Auditing (New Zealand) 810 Engagements to Report on Summary Financial Statements.~~

~~This compilation was prepared in June 2020 and incorporates amendments up to and including June 2020.~~

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

This Standard, when applied, repeals the current ISA (NZ) 200 issued by the External Reporting Board in September 2016.

COPYRIGHT

© External Reporting Board (“XRB”) 2016

This XRB standard contains copyright material and reproduces, with the permission of the International Federation of Accountants (IFAC), parts of the corresponding international standards issued by the International Auditing and Assurance Standards Board (“IAASB”), and published by IFAC. Reproduction within New Zealand in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address:
enquiries@xrb.govt.nz

All existing rights (including copyrights) in this material outside of New Zealand are reserved by IFAC, with the exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org

ISBN 978-0-947505-18-9

Explanatory note

This note is not part of the Standard.

This International Standard on Auditing (New Zealand) (ISA (NZ)) represents the New Zealand equivalent of International Standard on Auditing 810 (Revised) *Engagements to Report on Summary Financial Statements* issued by the International Auditing and Assurance Standards Board and repeals the current ISA (NZ) 810 (Revised) issued by the External Reporting Board in September 2016 (as amended to June 2020).

The revision of ISA (NZ) 810 (Revised) is a result of revisions to international standards issued by International Auditing and Assurance Standards Board arising from enhancements relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

ISA (NZ) 810 (Rrevised)**INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 810 (REVISED)****ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS***Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

	Paragraph
History of Amendments	
<u>Commencement and Application</u>	<u>0.1 – 0.2</u>
Introduction	
Scope of this ISA (NZ)	1
Effective Date	2–NZ2.1
Objectives	3
Definitions	4
Requirements	
Engagement Acceptance	5–NZ7.1
Nature of Procedures.....	8
Form of Opinion	9–11
Timing of Work and Events Subsequent to the Date of the Auditor’s Report on the Audited Financial Statements	12–13
Information in Documents Containing Summary Financial Statements	14–15
Auditor’s Report on Summary Financial Statements	16–21
Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting.	22
Comparatives	23–24
Unaudited Supplementary Information Presented with Summary Financial Statements	25
Auditor Association	26–27
Application and Other Explanatory Material	
Engagement Acceptance.....	A1–A7
Evaluating the Availability of the Audited Financial Statements.....	A8
Form of Opinion	A9
Timing of Work and Events Subsequent to the Date of the Auditor’s Report on the Audited Financial Statements	A10
Information in Documents Containing Summary Financial Statements	A11–A16

ISA (NZ) 810 (R~~revised~~**)**

Auditor's Report on Summary Financial Statements	A17–A23
Comparatives	A24–A25
Unaudited Supplementary Information Presented with Summary Financial Statements	A26
Auditor Association	A27
Appendix 1: Illustrations of Independent Auditor's Reports on Summary Financial Statements	

[\[NZ\] Appendix 2: Conforming Amendments to Other Pronouncements](#)

[Accompanying Attachment: Conformity to the International Standards on Auditing](#)

International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised), [“Engagements to Report on Summary Financial Statements”](#), should be read in conjunction with ISA (NZ) 200, [“Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing \(New Zealand\)”](#).

ISA (NZ) 810 (Rrevised)

History of Amendments

Table of pronouncements – ISA (NZ) 810 (Revised) *Engagements to Report on Summary Financial Statements*

This table lists the pronouncements establishing and amending ISA (NZ) 810 (Revised).

Pronouncements	Date approved	<u>Application</u> <u>Effective date</u>
International Standard on Auditing (New Zealand) 810 (Revised)	<u>October 2025</u> ~~September 2016~~	<u>Periods beginning on or after 15 December 2026, refer commencement and application section. Effective for audits of historical financial statements for periods ending on or after 15 December 2016.</u>
~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1~~	~~June 2020~~	~~Effective on 15 July 2020~~

<u>Table of Amended Paragraphs in ISA (NZ) 810 (Revised)</u>		
<u>Paragraph affected</u>	<u>How affected</u>	<u>By...[date]</u>
~~A13~~	~~Amended~~	~~Conforming Amendments to Auditing and Assurance Standards as a result of the revised Professional and Ethical Standard 1 [June 2020]~~

Commencement and Application

When standard takes effect (section 27 Financial Reporting Act 2013)

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

ISA (NZ) 810 (Rrevised)

Introduction

Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with ISAs (NZ) by that same auditor.

Effective Date

2. ~~This ISA (NZ) is effective for engagements to report on summary financial statements for periods ending on or after December 15, 2016. [Replaced by the NZAuASB. Refer to paragraphs 0.1-0.2]~~
- NZ2.1 This ~~ISA (NZ) Standard supersedes repeals~~ ISA (NZ) 810 (Revised), *Engagements to Report on Summary Financial Statements* issued in September 2016.

Objectives

3. The objectives of the auditor are:
 - (a) To determine whether it is appropriate to accept the engagement to report on summary financial statements; and
 - (b) If engaged to report on summary financial statements:
 - (i) To form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and
 - (ii) To express clearly that opinion through a written report that also describes the basis for that opinion.

Definitions

4. For purposes of this ISA (NZ), the following terms have the meanings attributed below:
 - (a) Applied criteria – The criteria applied by management in the preparation of the summary financial statements.
 - (b) Audited financial statements – Financial statements² audited by the auditor in accordance with ISAs (NZ), and from which the summary financial statements are derived.
 - (c) Summary financial statements – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in

² ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 13(f), defines the term "financial statements."

ISA (NZ) 810 (Rrevised)

time or the changes therein for a period of time.³ Different jurisdictions may use different terminology to describe such historical financial information.

Requirements

Engagement Acceptance

5. The auditor shall accept an engagement to report on summary financial statements in accordance with this ISA (NZ) only when the auditor has been engaged to conduct an audit in accordance with ISAs (NZ) of the financial statements from which the summary financial statements are derived. (Ref: Para. A1)
 6. [Amended by the NZAuASB.]
- NZ6.1 Before accepting an engagement to report on summary financial statements, the auditor shall: (Ref: Para. A2)
- (a) Determine whether the applied criteria are acceptable;⁴ (Ref: Para. A3–A7)
 - (b) Obtain the agreement of those charged with governance that they acknowledge and understand their responsibility:
 - (i) For the preparation of the summary financial statements in accordance with the applied criteria;
 - (ii) To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements); and
 - (iii) To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.
 - (c) Agree with those charged with governance the form of opinion to be expressed on the summary financial statements (see paragraphs 9–11)
7. [Amended by the NZAuASB.]
- NZ7.1 If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of those charged with governance set out in paragraph NZ6.1(b), the auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this ISA (NZ). Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this ISA (NZ). The auditor shall include appropriate reference to this fact in the terms of the engagement. The auditor shall also determine the effect that this may

³ ISA (NZ) 200, paragraph 153(f)

⁴ In New Zealand summary financial statements would normally be prepared in accordance with FRS-43: *Summary Financial Statements*.

ISA (NZ) 810 (Rrevised)

have on the engagement to audit the financial statements from which the summary financial statements are derived.

Nature of Procedures

8. The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:
 - (a) Evaluate whether the summary financial statements adequately disclose their summarised nature and identify the audited financial statements.
 - (b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:
 - (i) From whom or where the audited financial statements are available; or
 - (ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.
 - (c) Evaluate whether the summary financial statements adequately disclose the applied criteria.
 - (d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.
 - (e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
 - (f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
 - (g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements. (Ref: Para. A8)

Form of Opinion

9. When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases: (Ref: Para. A9)

ISA (NZ) 810 (Rrevised)

- (a) The accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [*the applied criteria*]; or
 - (b) The accompanying summary financial statements are a fair summary of the audited financial statements, in accordance with [*the applied criteria*].
10. If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described in paragraph 9, the auditor shall:
- (a) Apply the procedures described in paragraph 8 and any further procedures necessary to enable the auditor to express the prescribed opinion; and
 - (b) Evaluate whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.
11. If, in the case of paragraph 10(b), the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this ISA (NZ). Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this ISA (NZ).

Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements

12. The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements (Ref: Para. A10)
13. The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements, but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the summary financial statements until the auditor's consideration of such facts in relation to the audited financial statements in accordance with ISA (NZ) 560⁵ has been completed.

Information in Documents Containing Summary Financial Statements

14. The auditor shall read the information included in a document containing the summary financial statements and the auditor's report thereon and consider whether there is a material inconsistency between that information and the summary financial statements.
15. If the auditor identifies a material inconsistency, the auditor shall discuss the matter with management and determine whether the summary financial statements or the information included in the document containing the summary financial statements and the auditor's

⁵ ISA (NZ) 560, *Subsequent Events*.

ISA (NZ) 810 (Rrevised)

report thereon needs to be revised. If the auditor determines that the information needs to be revised and management refuses to revise the information as necessary, the auditor shall take appropriate action in the circumstances, including considering the implications for the auditor's report on the summary financial statements. (Ref: Para. A11–A16)

Auditor's Report on Summary Financial Statements*Elements of the Auditor's Report*

16. [Amended by the NZAuASB.]

NZ16.1 The auditor's report on summary financial statements shall include the following elements:⁶ (Ref: Para. A23)

- (a) A title clearly indicating it as the report of an independent auditor. (Ref: Para. A17)
- (b) An addressee. (Ref: Para. A18)
- (c) Identification of the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements. (Ref: Para. A19)
- (d) Identification of the audited financial statements.
- (e) Subject to paragraph 20, a clear expression of an opinion (see paragraphs 9–11).
- (f) A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements and the auditor's report thereon is not a substitute for reading the audited financial statements and the auditor's report thereon.
- (g) Where applicable, the statement required by paragraph 12.
- (h) Reference to the auditor's report on the audited financial statements, the date of that report, and, subject to paragraphs 19–20, the fact that an unmodified opinion is expressed on the audited financial statements.
- (i) A description of those charged with governance's⁷ responsibility for the summary financial statements, explaining that those charged with governance⁸ are responsible for the preparation of the summary financial statements in accordance with the applied criteria.
- (j) A statement that the auditor is responsible for expressing an opinion, based on the auditor's procedures conducted in accordance with this ISA (NZ), on whether the

⁶ Paragraphs 19–20, which deal with circumstances where the auditor's report on the audited financial statements has been modified, require additional elements to those listed in this paragraph.

⁷ Or other terms that are appropriate in the context of the legal framework for the entity.

⁸ Or other terms that are appropriate in the context of the legal framework for the entity.

ISA (NZ) 810 (Rrevised)

summary financial statements are consistent, in all material respects, with [or *are a fair summary of*] the audited financial statements.

- (k) The auditor's signature.
- (l) The auditor's address.
- (m) The date of the auditor's report. (Ref: Para. A20)

NZ16.2 The auditor's report shall include a statement 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.

- 17. If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. (Ref: Para. A18)
- 18. The auditor shall date the auditor's report on the summary financial statements no earlier than: (Ref: Para. A20)
 - (a) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognised authority have asserted that they have taken responsibility for them; and
 - (b) The date of the auditor's report on the audited financial statements.

Reference to the Auditor's Report on the Audited Financial Statements (Ref: Para. A23)

- 19. When the auditor's report on the audited financial statements includes:
 - (a) A qualified opinion in accordance with ISA (NZ) 705 (Revised);⁹
 - (b) An Emphasis of Matter paragraph, or an Other Matter paragraph in accordance with ISA (NZ) 706 (Revised);¹⁰
 - (c) *A Material Uncertainty Related to Going Concern* section in accordance with ISA (NZ) 570 (Revised);¹¹
 - (d) [Amended by the NZAuASB]

NZ19(d)(1) A Going Concern section in accordance with ISA (NZ) 570 when significant judgments are made by those charged with governance ~~directors~~ in concluding that there is no material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern¹²;

~~(d)~~(e) Communication of key audit matters in accordance with ISA (NZ) 701;¹³ or

⁹ ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

¹⁰ ISA (NZ) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

¹¹ ISA (NZ) 570 (Revised), *Going Concern*, paragraphs 2235-36.

¹² ISA (NZ) 570, paragraph 34(b)

¹³ ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

ISA (NZ) 810 (Rrevised)

~~(e)~~(f) A statement that describes an uncorrected material misstatement of the other information in accordance with ISA (NZ) 720 (Revised);¹⁴

and the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph NZ16.1:

(i) [Amended by the NZAuASB]

NZ19(i)(1) State that the auditor's report on the audited financial statements includes a qualified opinion, an Emphasis of Matter paragraph, an Other Matter paragraph, a *Material Uncertainty Related to Going Concern* section, or a *Going Concern* section that refers to significant judgments made by ~~director~~those charged with governance in concluding that there is no material uncertainty, communication of key audit matters, or a statement that describes an uncorrected material misstatement of the other information; and (Ref: Para. A21)

~~(i)~~(ii) Describe: (Ref: Para. A22)

a. The basis for the qualified opinion on the audited financial statements and the effect thereof, if any, on the summary financial statements;

b. [Amended by the NZAuASB]

NZ19(ii)(b)(1) The matter referred to in the Emphasis of Matter paragraph, the Other Matter paragraph, or the *Material Uncertainty Related to Going Concern* section, or a *Going Concern* section that refers to significant judgments made by ~~director~~those charged with governance in concluding that there is no material uncertainty, in the auditor's report on the audited financial statements and the effect(s) thereof, if any, on the summary financial statements; or

~~b.c.~~ The uncorrected material misstatement of the other information and the effect(s) thereof, if any, on the information included in a document containing the summary financial statements and the auditor's report thereon. (Ref: Para. A15)

20. When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph NZ16.1:

(a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;

(b) Describe the basis for that adverse opinion or disclaimer of opinion; and

(c) State that, as a result of the adverse opinion or disclaimer of opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements. (Ref: Para. A23)

¹⁴ ISA (NZ) 720 (Revised), *The Auditor's Responsibilities Related to Other Information*.

ISA (NZ) 810 (Rrevised)*Modified Opinion on the Summary Financial Statements*

21. If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements. (Ref: Para. A23)

Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting

22. When distribution or use of the auditor's report on the audited financial statements is restricted, or the auditor's report on the audited financial statements alerts readers that the audited financial statements are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor's report on the summary financial statements.

Comparatives

23. If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements. (Ref: Para. A24)
24. If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that ISA (NZ) 710 requires the auditor to include in the auditor's report on the audited financial statements.¹⁵ (Ref: Para. A25)

Unaudited Supplementary Information Presented with Summary Financial Statements

25. The auditor shall evaluate whether any unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary financial statements, the auditor shall ask management to change the presentation of the unaudited supplementary information. If management refuses to do so, the auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report. (Ref: Para. A26)

Auditor Association

26. If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document. (Ref: Para. A27)

¹⁵ ISA (NZ) 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*

ISA (NZ) 810 (Rrevised)

27. The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:

- (a) The reference to the auditor is made in the context of the auditor's report on the audited financial statements; and
- (b) The statement does not give the impression that the auditor has reported on the summary financial statements.

If (a) or (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor. (Ref: Para. A27)

Application and Other Explanatory Material

Engagement Acceptance (Ref: Para. 5–6)

A1. The audit of the financial statements from which the summary financial statements are derived provides the auditor with the necessary knowledge to discharge the auditor's responsibilities in relation to the summary financial statements in accordance with this ISA (NZ). Application of this ISA (NZ) will not provide sufficient appropriate evidence on which to base the opinion on the summary financial statements if the auditor has not also audited the financial statements from which the summary financial statements are derived.

A2. [Amended by the NZAuASB.]

NZA2.1 Those charged with governance's agreement with the matters described in paragraph NZ6.1 may be evidenced by their written acceptance of the terms of the engagement.

Criteria (Ref: Para. 6(a))

A3. The preparation of summary financial statements requires management to determine the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements. Because summary financial statements by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for the preparation of summary financial statements do not exist.

ISA (NZ) 810 (Rrevised)

- A4. Factors that may affect the auditor's determination of the acceptability of the applied criteria include:
- The nature of the entity;
 - The purpose of the summary financial statements;
 - The information needs of the intended users of the summary financial statements; and
 - Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.
- A5. The criteria for the preparation of summary financial statements may be established by an authorised or recognised standards setting organisation or by law or regulation. Similar to the case of financial statements, as explained in ISA (NZ) 210,¹⁶ in many such cases, the auditor may presume that such criteria are acceptable.
- A6. Where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry. Criteria that are acceptable in the circumstances will result in summary financial statements that:
- (a) Adequately disclose their summarised nature and identify the audited financial statements;
 - (b) Clearly describe from whom or where the audited financial statements are available or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, that law or regulation;
 - (c) Adequately disclose the applied criteria;
 - (d) Agree with or can be recalculated from the related information in the audited financial statements; and
 - (e) In view of the purpose of the summary financial statements, contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.
- A7. Adequate disclosure of the summarised nature of the summary financial statements and the identity of the audited financial statements, as referred to in paragraph A6(a), may, for example, be provided by a title such as "Summary Financial Statements Prepared from the Audited Financial Statements for the Year Ended December 31, 20X1."

Evaluating the Availability of the Audited Financial Statements (Ref: Para. 8(g))

- A8. The auditor's evaluation whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty is affected by factors such as whether:
- The summary financial statements describe clearly from whom or where the audited financial statements are available;

¹⁶ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraphs A3 and A8–A9.

ISA (NZ) 810 (Rrevised)

- The audited financial statements are on public record; or
- Management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.

Form of Opinion (Ref: Para. 9)

A9. A conclusion, based on an evaluation of the evidence obtained by performing the procedures in paragraph 8, that an unmodified opinion on the summary financial statements is appropriate enables the auditor to express an opinion containing one of the phrases in paragraph 9. The auditor's decision as to which of the phrases to use may be affected by generally accepted practice in the particular jurisdiction.

Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements (Ref: Para. 12)

A10. The procedures described in paragraph 8 are often performed during or immediately after the audit of the financial statements. When the auditor reports on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements and do not update them.

Information in Documents Containing Summary Financial Statements (Ref: Para. 14–15)

A11. ISA (NZ) 720 (Revised) deals with the auditor's responsibilities relating to other information in an audit of financial statements. In the context of ISA (NZ) 720 (Revised), other information is financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. An annual report contains or accompanies the financial statements and the auditor's report thereon.

A12. In contrast, paragraphs 14–15 deal with the auditor's responsibilities relating to information included in a document that also contains the summary financial statements and the auditor's report thereon. This information may include:

- Some or all of the same matters as those dealt with in the other information included in the annual report (e.g., when the summary financial statements and the auditor's report thereon are included in a summary annual report); or
- Matters that are not dealt with in the other information included in the annual report.

A13. In reading the information included in a document containing the summary financial statements and the auditor's report thereon, the auditor may become aware that such information is misleading and may need to take appropriate action. Relevant ethical requirements¹⁷ require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or

¹⁷ Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board paragraph R111.2

ISA (NZ) 810 (Revised)

information provided recklessly, or omits or obscures required information where such omission or obscurity would be misleading.

Information in a Document Containing the Summary Financial Statements that Deals with Some or All of the Same Matters as the Other Information in the Annual Report

- A14. When information is included in a document containing the summary financial statements and the auditor's report thereon and that information deals with some or all of the same matters as the other information included in the annual report, the work performed on that other information in accordance with ISA (NZ) 720 (Revised) may be adequate for the purposes of paragraphs 14–15 of this ISA (NZ).
- A15. When an uncorrected material misstatement of the other information has been identified in the auditor's report on the audited financial statements and that uncorrected material misstatement relates to a matter that is dealt with in the information in a document containing the summary financial statements and the auditor's report thereon, a material inconsistency between the summary financial statements and that information may exist or the information may be misleading.

Information in a Document Containing the Summary Financial Statements that Deals with Matters Not Dealt with in the Other Information in the Annual Report

- A16. ISA (NZ) 720 (Revised), adapted as necessary in the circumstances, may be helpful to the auditor in determining the appropriate action to respond to management's refusal to make necessary revisions to the information, including considering the implications for the auditor's report on the summary financial statements.

Auditor's Report on Summary Financial Statements

Elements of the Auditor's Report

Title (Ref: Para. NZ16.1(a))

- A17. A title indicating the report is the report of an independent auditor, for example, "Report of the Independent Auditor," affirms that the auditor has met all of the relevant ethical requirements regarding independence. This distinguishes the report of the independent auditor from reports issued by others.

Addressee (Ref: Para. NZ16.1 (b), 17)

- A18. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Identification of the Summary Financial Statements (Ref: Para. NZ16.1 (c))

- A19. When the auditor is aware that the summary financial statements will be included in a document that contains information other than the summary financial statements and the auditor's report thereon, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.

ISA (NZ) 810 (Rrevised)

Date of the Auditor's Report (Ref: Para. NZ16.1 (m), 18)

A20. The person or persons with recognised authority to conclude that the summary financial statements have been prepared and take responsibility for them depend on the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Reference to the Auditor's Report on the Audited Financial Statements (Ref: Para. 19)

A21. Paragraph 19(i) of this ISA (NZ) requires the auditor to include a statement in the auditor's report on the summary financial statements when the auditor's report on the audited financial statements includes communication of one or more key audit matters described in accordance with ISA (NZ) 701.¹⁸ However, the auditor is not required to describe the individual key audit matters in the auditor's report on the summary financial statements.

A22. The statement(s) and description(s) required by paragraph 19 are intended to draw attention to those matters and are not a substitute for reading the auditor's report on the audited financial statements. The required descriptions are intended to convey the nature of the matter(s), and need not repeat the corresponding text in the auditor's report on the audited financial statements in its entirety.

Illustrations (Ref: Para. NZ16.1, 19–21)

A23. Appendix 1 to this ISA (NZ) contains illustrations of auditors' reports on summary financial statements that variously:

- (a) Contain unmodified opinions;
- (b) Are derived from audited financial statements on which the auditor issued modified opinions;
- (c) Contain a modified opinion;
- (d) Are derived from audited financial statements where the auditor's report thereon includes a statement describing an uncorrected material misstatement of the other information in accordance with ISA (NZ) 720 (Revised); and
- (e) Are derived from audited financial statements where the auditor's report thereon includes a *Material Uncertainty Related to Going Concern* section and communication of other key audit matters.

Comparatives (Ref: Para. 23–24)

A24. If the audited financial statements contain comparatives, there is a presumption that the summary financial statements also would contain comparatives. Comparatives in the audited financial statements may be regarded as corresponding figures or as comparative financial information. ISA (NZ) 710 describes how this difference affects the auditor's report on the financial statements, including, in particular, reference to other auditors who audited the financial statements for the prior period.

A25. Circumstances that may affect the auditor's determination whether an omission of comparatives is reasonable include the nature and objective of the summary financial

¹⁸ ISA (NZ) 701, paragraph 13.

ISA (NZ) 810 (Rrevised)

statements, the applied criteria, and the information needs of the intended users of the summary financial statements.

Unaudited Supplementary Information Presented with Summary Financial Statements (Ref: Para. 25)

A26. ISA (NZ) 700 (Revised)¹⁹ contains requirements and guidance to be applied when unaudited supplementary information is presented with audited financial statements that, adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph 25.

Auditor Association (Ref: Para. 26–27)

A27. Other appropriate actions the auditor may take when management does not take the requested action may include informing the intended users and other known third-party users of the inappropriate reference to the auditor. The auditor's course of action depends on the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

¹⁹ ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 53–54.

ISA (NZ) 810 (Rrevised)

Appendix 1

(Ref: Para. A23)

Illustrations of Independent Auditor's Reports on Summary Financial Statements

- [NZ] Illustration 1: An auditor's report on summary financial statements prepared in accordance with FRS-43: *Summary Financial Statements*. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which summary financial statements are derived. The auditor's report on the audited financial statements includes a *Material Uncertainty Related to Going Concern* section and communication of other key audit matters.
- [NZ] Illustration 2: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived. The auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of the other information. The other information to which this uncorrected material misstatement relates is also information included in a document containing the summary financial statements and the auditor's report thereon.
- [NZ] Illustration 3: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. A qualified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- [NZ] Illustration 4: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An adverse opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.

ISA (NZ) 810 (Rrevised)

- [NZ] Illustration 5: An auditor's report on summary financial statements prepared in accordance with FRS-43: *Summary Financial Statements*. An unmodified opinion is expressed on the audited financial statements. The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.

[NZ] Illustration 1:

Circumstances include the following:

- An unmodified opinion is expressed on the audited financial statements of a FMC Reporting Entity Considered to have a Higher Level of Public Accountability.
- The summary financial statements are prepared in accordance with FRS-43.
- The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- The auditor's report on the audited financial statements includes a *Material Uncertainty Related to Going Concern* section.
- The auditor's report on the audited financial statements includes communication of other key audit matters.¹

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Opinion

The summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with *(or a fair summary of)* the audited financial statements, in accordance with FRS-43: *Summary Financial Statements* issued by the New Zealand Accounting Standards Board.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by New Zealand equivalents to [IFRS Accounting Standards](#)~~International Financial Reporting Standards~~ (NZ IFRS). Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 15, 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that draws attention to Note [6X](#) in the audited financial statements. Note [6X](#) of the audited financial statements indicates that ABC Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and,

¹ As explained in paragraph 15 of ISA (NZ) 701, a material uncertainty related to going concern is, by its nature, a key audit matter but is required to be reported in a separate section of the auditor's report in accordance with paragraphs [22-35-36](#) of ISA (NZ) 570-~~(Revised)~~.

ISA (NZ) 810 (Rrevised)

as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note [6X](#) of the audited financial statements, indicate that a material uncertainty exists that may cast significant doubt on ABC Company's ability to continue as a going concern. These matters are addressed in Note [5Y](#) of the summary financial statements.²

- The communication of other³ key audit matters. [Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period.]⁴

Directors'⁵ Responsibility for the Summary Financial Statements

Directors are responsible on behalf of the entity for the preparation of the summary financial statements in accordance with FRS-43: *Summary Financial Statements*.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with *(or are a fair summary of)* the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

² [The auditor may include additional description about how the auditor evaluated the directors' assessment of the entity's ability to continue as a going concern, in accordance with paragraph NZ35\(b\) of ISA \(NZ\) 570.](#)

³ In the circumstances where there is no material uncertainty related to going concern, inclusion of the word "other" in the statement for the communication of key audit matters would not be necessary.

⁴ The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the summary financial statements.

⁵ Or other terms that are appropriate in the context of the legal framework for the entity.

[NZ] Illustration 2:

Circumstances include the following:

- An unmodified opinion is expressed on the audited financial statements.
- Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.
- The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- The auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of the other information. The other information to which this uncorrected material misstatement relates is also information included in a document containing the summary financial statements and the auditor's report thereon.

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Opinion

The summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1. In our opinion, the accompanying summary financial statements are consistent, in all material respects, with *(or a fair summary of)* the audited financial statements, on the basis described in Note X.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 15, 20X2. [The audited financial statements are included in the 20X1 Annual Report. The auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of other information within Management's Discussion and Analysis of the 20X1 Annual Report. Management's Discussion and Analysis, and the uncorrected material misstatement of the other information therein, are also contained in the 20X1 Summary Annual Report.] [Describe the uncorrected material misstatement of the other information].

ISA (NZ) 810 (Rrevised)**Directors'⁶ Responsibility for the Summary Financial Statements**

Directors are responsible on behalf of the entity for the preparation of the summary financial statements on the basis described in Note X.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or are a fair summary of) the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

⁶ Or other terms that are appropriate in the context of the legal framework for the entity.

[NZ] Illustration 3:

Circumstances include the following:

- A qualified opinion is expressed on the audited financial statements.
- Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.
- The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Opinion

The summary financial statements, which comprise the summary statement of financial position as at December 31, 20X1, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of ABC Company (the Company) for the year ended December 31, 20X1. We expressed a qualified audit opinion on those financial statements in our report dated February 15, 20X2.⁷

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with (*or a fair summary of*) the audited financial statements, on the basis described in Note X. However, the summary financial statements are misstated to the equivalent extent as the audited financial statements of ABC Company for the year ended December 31, 20X1.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

The Audited Financial Statements and Our Report Thereon

We expressed a qualified audit opinion on the audited financial statements in our report dated February 15, 20X2. The basis for our qualified audit opinion was [that management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from [IFRS Accounting Standards](#)~~International Financial Reporting Standards~~]. The Company's records indicate that had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been

⁷ The positioning of this reference to the qualified opinion in the auditor's report on the audited financial statements in the Opinion paragraph on the summary financial statements assists users in understanding that although the auditor has expressed an unmodified opinion on the summary financial statements, the summary financial statements reflect audited financial statements that are materially misstated.

ISA (NZ) 810 (Rrevised)

increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

Directors'⁸ Responsibility for the Summary Financial Statements

Directors are responsible on behalf of the entity for the preparation of the summary financial statements on the basis described in Note X.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with *(or are a fair summary of)* the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

⁸ Or other terms that are appropriate in the context of the legal framework for the entity.

[NZ] Illustration 4:

Circumstances include the following:

- An adverse opinion is expressed on the audited financial statements.
- Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.
- The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Denial of Opinion

The summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1.

As a result of the adverse opinion on the audited financial statements discussed in The Audited Financial Statements and our Report Thereon section of our report, it is inappropriate to express an opinion on the accompanying summary financial statements.

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

The Audited Financial Statements and Our Report Thereon

In our report dated February 15, 20X2, we expressed an adverse opinion on the audited financial statements of ABC Company for the year ended December 31, 20X1. The basis for our adverse opinion was [describe basis for adverse audit opinion].

Directors'⁹ Responsibility for the Summary Financial Statements

Directors are responsible on behalf of the entity for the preparation of the summary financial statements on the basis described in Note X.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (*or are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with International Standard on

⁹ Or other terms that are appropriate in the context of the legal framework for the entity.

ISA (NZ) 810 (Rrevised)

Auditing (New Zealand) (ISA (NZ)) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

[NZ] Illustration 5:

Circumstances include the following:

- An unmodified opinion is expressed on the audited financial statements.
- The summary financial statements are prepared in accordance with FRS-43.
- The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.
- The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS

[Appropriate Addressee]

Adverse Opinion

The summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1.

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion section, the accompanying summary financial statements are not consistent with (or a fair summary of) the audited financial statements of ABC Company for the year ended December 31, 20X1, in accordance with FRS-43: *Summary Financial Statement* issued by the New Zealand Accounting Standards Board.

Basis for Adverse Opinion

[Describe matter that caused the summary financial statements not to be consistent, in all material respects, with (or a fair summary of) the audited financial statements, in accordance with the FRS-43: *Summary Financial Statements*.]

Summary Financial Statements

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

The Audited Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 15, 20X2.

ISA (NZ) 810 (Rrevised)**Management's¹⁰ Responsibility for the Summary Audited Financial Statements**

Directors are responsible on behalf of the entity for the preparation of the summary financial statements in accordance with FRS-43: *Summary Financial Statements*.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (*or are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (New Zealand) (ISA (NZ)) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Other than in our capacity as auditor we have no relationship with, or interests in, ABC Company.

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

¹⁰ Or other terms that are appropriate in the context of the legal framework for the entity.

CONFORMING AMENDMENTS TO OTHER PRONOUNCEMENTS

This appendix sets out conforming amendments to other pronouncements issued by the XRB or the NZAuASB as a result of the approval of ISA (NZ) 810 (Revised).

XRB Au1 Application of Auditing and Assurance Standards

In Appendix 2, ISA (NZ) 810 is amended to reflect the issue of ISA (NZ) 810 (Revised).

ISA (NZ) 810 (REVISED)**ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING**

This conformity statement is not part of the Standard.

This conformity statement accompanies but is not part of ISA (NZ) 810 (Revised).

Conformity with International Standards on Auditing

This ~~International Standard on Auditing (New Zealand) (ISA (NZ))~~ conforms to International Standard on Auditing ISA 810 (Revised) *Engagements to Report on Summary Financial Statements*, issued by the International Auditing and Assurance Standards Board ~~(IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).~~

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

The following requirement is additional to ISA 810 (Revised) and ASA 810:

- The auditor’s report shall include a statement 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.
[Ref. Para. NZ16.2]

This ISA (NZ) incorporates terminology and definitions used in New Zealand. References to “management” and “those charged with governance” have been amended in the ISAs (NZ) because in New Zealand, those charged with governance generally have a statutory responsibility for ensuring the entity meets its legal obligations in relation to the preparation of the financial statements.

The ISAs require the auditor to agree the terms of the engagement with management. The ISAs (NZ) require agreement with those charged with governance. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.

Compliance with this ISA (NZ) enables compliance with ISA 810 (Revised).

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

<u>Title</u>	<u>International Standard on Auditing (New Zealand) 810 (Revised)</u> <u>Engagements to Report on Summary Financial Statements</u>
<u>Principal or amendment</u>	<u>Principal</u>
<u>Consolidated version</u>	<u>No</u>
<u>Empowering Act and provisions</u>	<u>This Standard was made under section 12(b) of the Financial Reporting Act 2013.</u>
<u>Replacement empowering Act and provision</u>	<u>Not applicable.</u>
<u>Maker name</u>	<u>New Zealand Auditing and Assurance Standards Board of the External Reporting Board</u>
<u>Administering agency</u>	<u>External Reporting Board</u>
<u>Date made</u>	<u>24 October 2025</u>
<u>Publication date</u>	<u>30 October 2025</u>
<u>Notification date</u>	<u>30 October 2025</u>
<u>Commencement date</u>	<u>This standard takes effect on 27 November 2025.</u>
<u>End date</u>	<u>Not applicable</u>
<u>Consolidation as at date</u>	<u>Not applicable</u>
<u>Related instruments</u>	<u>Not applicable.</u>

AMENDMENTS TO ASSURANCE STANDARDS 2025

Issued 10/25

**AMENDMENTS TO ASSURANCE STANDARDS 2025**

This Standard was made under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board after complying with section 22 of that Act.

In finalising this Standard, the External Reporting Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019.

AMENDMENTS TO ASSURANCE STANDARDS 2025**Explanatory note**

This note is not part of the Standard.

This Standard has been issued to ensure interoperability of all the XRB's auditing and assurance standards in light of recent revisions to auditing standards on going concern and fraud and to adopt narrow scope amendments dealing with the significant public interest in certain types of entities and to make minor editorial corrections.

Copyright

This notice is not part of the Standard.

The Standard below is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board ("IAASB"), and the corresponding international ethical standard issued by the International Ethics Standards Board for Accountants (IESBA). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from the IFAC at www.ifac.org or by writing to permissions@ifac.org.

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

ISBN

[Insert ISBN here]

AMENDMENTS TO ASSURANCE STANDARDS 2025**AMENDMENTS TO ASSURANCE STANDARDS 2025***Issued by the New Zealand Auditing and Assurance Standards Board***CONTENTS**

	Page
A: Commencement and Application	4
B: Introduction	5
C: Amendments to Assurance Standards 2025	6

AMENDMENTS TO ASSURANCE STANDARDS 2025**A: Commencement and Application****When standard takes effect (section 27 Financial Reporting Act 2013)**

0.1 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019¹.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

0.2 The accounting periods in relation to which this standard commences to apply are, for an auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

mandatory date means 15 December 2026.

¹ This footnote is not part of the standard. The standard was published under the Legislation Act 2019 on 30 October 2025 and takes effect on 27 November 2025.

AMENDMENTS TO ASSURANCE STANDARDS 2025

B: Introduction

A tabular presentation format has been used to show the amendments to the standards. Underline and strikethrough are used to indicate changes.

The paragraph numbers and footnote numbers within these amendments do not align with the actual paragraph numbers and footnote numbers of the standards that will be amended, and reference should be made to the compiled standards.

These Amendments affect the following standards:

- XRB Au1, *Application of Auditing and Assurance Standards*
- PES 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*
- PES 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- PES 4, *Engagement Quality Reviews*
- NZ AS 1 (Revised), *Audit of Service Performance Information*
- ISA (NZ) 501, *Audit Evidence – Specific Considerations for Selected Items*
- ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*
- ISAE (NZ) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information in a Prospectus*
- SAE 3450 *Assurance Over Financial Information Prepared in Connection with a Capital Raising*
- ISRS (NZ) 4400, *Agreed-upon Procedures Engagements*

AMENDMENTS TO ASSURANCE STANDARDS 2025

C: Amendments to Assurance Standards 2025

Ref.	Amendments to Assurance Standards
External Reporting Board Standard (XRB) Au1 <i>Application of Auditing and Assurance Standards</i>	
Appendix 2	International Standards on Auditing (New Zealand) ... ISA (NZ) 570 (Revised) Going Concern ...
Appendix 4	Other Assurance Engagement Standards ... SAE 3450 <u>Assurance Over Financial Information Prepared in Connection with a Capital Raising</u>
Professional and Ethical Standard 1, <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i>	
Glossary	Component An entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for the purposes of planning and performing audit procedures in a group audit.
Professional and Ethical Standard 3, <i>Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements</i>	
5	Introduction Scope of this Professional and Ethical Standard ... 5. ... <u>5A. [Amended by the NZAuASB]</u> <u>NZ5A. Some of the requirements set out in PES 3 and PES 4 are applicable only to audits of financial statements of FMC reporting entities considered to have a higher level of public accountability, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders. (Ref: Para. A2A–A2B)</u> <u>5B [Amended by the NZAuASB]</u> <u>NZ5B. Stakeholders have heightened expectations regarding an audit engagement for a FMC reporting entity considered to have a higher level of public accountability because of the</u>

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	<u>significance of the public interest in the financial condition of the entity. The purpose of the requirements in PES 3 and PES 4 that apply to audits of financial statements of FMC reporting entities considered to have a higher level of public accountability is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition. (Ref: Para. A2A–A2E)</u> ...
10.	<i>Scalability</i> 10. <u>[Amended by the NZAuASB]</u> <u>NZ10.1</u> In applying a risk-based approach, the firm is required to take into account: (a) The nature and circumstances of the firm; and (b) The nature and circumstances of the engagements performed by the firm. Accordingly, the design of the firm's system of quality management, in particular the complexity and formality of the system, will vary. For example, a firm that performs different types of engagements for a wide variety of entities, including audits of financial statements of ~~listed entities~~ <u>FMC reporting entities considered to have a higher level of public accountability</u>, will likely need to have a more complex and formalised system of quality management and supporting documentation, than a firm that performs only reviews of financial statements or agreed-upon procedures engagements. ...
16(j)	~~(j) Listed entity [Deleted by the NZAuASB. Refer NZ16.2]~~
16(p)b	<u>[Deleted by the NZAuASB. Refer NZ16.2]</u>
NZ16.2	FMC reporting entity considered to have a higher level of public accountability⁷ – A FMC reporting entity or a class of FMC reporting entity that is considered to have a higher level of public accountability than other FMC reporting entities: • under section 461K of the Financial Markets Conduct Act 2013; or • by notice issued by the Financial Markets Authority (<u>FMA</u>) under section 461L(1)(1) of the Financial Markets Conduct Act 2013. ⁷ ~~Where this PES refers to a FMC reporting entity with a higher level of public accountability, for the purposes of this standard this shall include any listed entity, an entity whose shares, stock or debt are quoted or listed on recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body, whether listed in New Zealand or in another jurisdiction.~~
A2	Application and Other Explanatory Material

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	A2 ... <u>A2A [Amended by the NZAuASB]</u> <u>NZA2A. The firm may determine that there are entities other than FMC reporting entities considered to have a higher level of public accountability where stakeholders have heightened expectations regarding the audit engagement, reflecting significant public interest in the financial condition of those entities. Therefore, the firm may also apply one or more requirements set out in PES 3 or PES 4 for audits of financial statements of FMC reporting entities considered to have a higher level of public accountability to the audits of such other entity(ies). Paragraphs A2B–A2E may be relevant in this regard.</u> <u>A2B. The extent of public interest in the financial condition of an entity may, for example, be affected by:</u> • <u>The nature of the business or activities, such as taking on financial obligations to the public as part of the entity’s primary business.</u> • <u>Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.</u> • <u>Size of the entity.</u> • <u>The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.</u> • <u>Number and nature of stakeholders including investors, customers, creditors and employees.</u> • <u>The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.</u> <u>A2C [Amended by the NZAuASB]</u> <u>NZA2C. Law, regulation or professional requirements, including relevant ethical requirements, may define or designate an entity(ies) as a “public interest entity” or may use terms other than “public interest entity” to describe entities in which there is a significant public interest in their financial condition. For example, PES 1 has identified certain categories of public interest entity, including:</u> • <u>A publicly traded entity,</u> • <u>An entity one of whose main functions is to take deposits from the public, or</u> • <u>An entity one of whose main functions is to provide insurance to the public.</u> <u>For purposes of PES 1¹, a firm is required to treat an entity as a public interest entity, when it meets the tier 1 criteria in</u>

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	<u>accordance with XRB A1² and is not eligible to report in accordance with the accounting requirements of another tier.</u> <u>A2D. In addition, those responsible for setting law, regulation or professional requirements may also designate categories of “public interest entities”. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:</u> • <u>Pension funds.</u> • <u>Collective investment vehicles.</u> • <u>Private entities with large numbers of stakeholders (other than investors).</u> • <u>Not-for-profit organisations or governmental entities.</u> • <u>Public utilities.</u> <u>A2E [Amended by the NZAuASB]</u> <u>NZA2E. The firm may also consider the following factors in determining whether it may be appropriate to apply one or more requirements in PES 3 or PES 4 for audits of FMC reporting entities considered to have a higher level of public accountability to the audit of another entity(ies):</u> • <u>Whether the entity is treated as a public interest entity for purposes of relevant ethical requirements, including those related to independence.</u> • <u>Whether the entity is likely to become a FMC reporting entity considered to have a higher level of public accountability in the near future.</u> • <u>Whether in similar circumstances, the firm has applied the differential requirements for FMC reporting entities considered to have a higher level of public accountability to other entities.</u> • <u>Whether the entity has been specified as not being a FMC reporting entity considered to have a higher level of public accountability by law, regulation or professional requirements.</u> • <u>Whether the entity or other stakeholders requested the firm to apply the differential requirements for FMC reporting entities considered to have a higher level of public accountability to the entity and, if so, whether there are any reasons for not meeting this request.</u> • <u>The entity’s corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.</u> • <u>Whether in similar circumstances, a predecessor firm has applied differential requirements for FMC reporting</u>

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	<u>entities considered to have a higher level of public accountability to the entity.</u> ... ¹ PES 1, paragraph NZR400.22.1 ² XRB A1 <i>Accounting Standards Framework</i>
A23	A23. PES 1³ addresses circumstances when law or regulation precludes the assurance practitioner from complying with certain parts of the PES 1. ... ³ PES 1, paragraphs R100.7–100.7 A1
A24	A24. Various provisions of the relevant ethical requirements may apply only to individuals in the context of the performance of engagements and not the firm itself. For example: • Part 2 of PES 1⁴ applies to individuals who are assurance practitioners in public practice when they are performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner, and may be relevant in the context of the performance of engagements. ... ⁴ PES 1, paragraph R270.3
A71	... PES 1⁵ also includes requirements for the consideration of conflicts of interests in accepting or continuing a client relationship or specific engagement and communication with the existing or predecessor firm when accepting an engagement that is an audit or review of financial statements. ... ⁵ PES 1, Section 310 and paragraphs R320.4–R320.8
A74	...PES 1⁶ addresses fees and other types of remuneration, including circumstances that may create a threat to compliance with the fundamental principle of professional competence and due care if the fee quoted for an engagement is too low. ... ⁶ PES 1, paragraph 330.3 A2
A117	... For example, PES 1⁷ provides a conceptual framework for this purpose and, in applying the conceptual framework, requires that the firm use the reasonable and informed third party test. ... ⁷ PES 1, Section 120
A118	... For example, PES 1⁸ sets out requirements for the firm in the event of a breach of PES 1 and includes specific requirements

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	addressing breaches of the International Independence Standards, which includes requirements for communication with external parties. ... ⁸ PES 1, paragraphs R100.8, R400.80 to R400.89 and R900.50 to R900.55
NZA128.1	Communication with Those Charged with Governance (Ref. Para: 34(e)(i)) ... NZA128.1 ISA (NZ) 260 (Revised) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements, and addresses the auditor's determination of the appropriate person(s) within the entity's governance structure with whom to communicate²³ and the communication process.²⁴ In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than FMC reporting entities considered to have a higher level of public accountability, <u>including those where the firm determines that there is a significant public interest in the financial condition of those entities (see paragraph A2A) (or when performing other engagements). Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds) and other entities such as not-for-profit organisations.</u>~~for example, entities that may have public interest or public accountability characteristics, such as:~~ ~~Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds.~~ ~~Entities with a high public profile, or whose management or owners have a high public profile.~~ ~~Entities with a large number and wide range of stakeholders.~~
A133	<i>Engagements Subject to an Engagement Quality Review</i> Engagement Quality Review Required by Law or Regulation (Ref: Para. 34(f)(ii)) <u>This PES requires an engagement quality review for audits of financial statements of FMC reporting entities considered to have a higher level of public accountability. Law or regulation may also include explicit requirements to perform an engagement quality review for certain entities to be performed, for example, for audit engagements for entities that:</u> • Are public interest entities as defined in a <u>particular specific jurisdiction</u>;

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	• Operate in the public sector or which are recipients of government funding, or entities with public accountability; • Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds); • Meet a specified asset threshold; or • Are under the management of a court or judicial process (e.g., liquidation).
A134	... <i>Examples of conditions, events, circumstances, actions or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response</i> ... Those relating to the types of entities for which engagements are undertaken: • Entities in emerging industries, or for which the firm has no previous experience. • Entities for which concerns were expressed in communications from securities or prudential regulators. • <u>Entities other than FMC reporting entities considered to have a higher level of public accountability if the firm determines that there is significant public interest in the financial condition of those entities (see paragraph A2A) for which an engagement quality review is not otherwise required by law or regulation. Examples of such entities may include financial institutions (such as banks, insurance companies and pension funds) and other entities such as not-for-profit organisations.</u> ~~Entities other than FMC reporting entities considered to have a higher level of public accountability that may have public interest or public accountability characteristics, for example:~~ ~~○ Entities that hold a significant amount of assets in a fiduciary capacity for a large number of stakeholders including financial institutions, such as certain banks, insurance companies, and pension funds for which an engagement quality review is not otherwise required by law or regulation.~~ • Entities with a high public profile, or whose management or owners have a high public profile. ~~○ Entities with a large number and wide range of stakeholders.~~

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
A151	<i>Engagement Inspections</i> (Ref: Para. 38) A151 [Amended by the NZAuASB] <u>NZA151.1</u> <i>Examples of matters in paragraph 37 that may be considered by the firm in selecting completed engagements for inspection</i> • In relation to the conditions, events, circumstances, actions or inactions giving rise to the quality risks: ○ The types of engagements performed by the firm, and the extent of the firm's experience in performing the type of engagement. ○ The types of entities for which engagements are undertaken, for example: ▪ Entities that are FMC reporting entities considered to have a higher level of public accountability. ...
A166	A166. [Amended by the NZAuASB] <u>NZA166.1</u> The nature, timing and extent of the procedures undertaken to understand the root cause(s) of an identified deficiency may also be affected by the nature and circumstances of the firm, such as:...
A204	... Relevant ethical requirements may also include specific requirements addressing documentation, for example, PES 1² requires documentation of particular matters, including certain situations related to conflicts of interest, non-compliance with laws and regulations and independence. ... ⁹ PES 1, paragraphs R360.28 and R400.88
Professional and Ethical Standard 4, <i>Engagement Quality Reviews</i>	
NZA4.1	NZA4.1. The firm may assign more than one individual to be responsible for appointing engagement quality reviewers. For example, the firm's policies or procedures may specify a different process for appointing engagement quality reviewers for audits of FMC reporting entities considered to have a higher level of public accountability than for audits of ~~non-~~ <u>entities other than</u> FMC reporting entities considered to have a higher level of public accountability ~~entities~~ or other engagements, with different individuals responsible for each process.
A16	A16. Relevant ethical requirements may include requirements and guidance to identify, evaluate and address threats to objectivity. For example, PES 1¹⁰ provides specific guidance, including examples of:

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	... ¹⁰ PES 1, Section 325
New Zealand Auditing Standard 1 (Revised), <i>Audit of Service Performance Information</i>	
15 (c)	Obtaining an Understanding <i>Understanding the Entity</i> 15. The auditor shall obtain an understanding of: ... (a) Who the entity aims to serve i.e., the entity's primary stakeholders and the primary users of the service performance <u>information report</u> .
17	<i>Understanding the Service Performance Information Reported</i> 17. The auditor shall obtain an understanding of: ... (b) The process, including the rationale and logic, the entity ...
28	28. The auditor shall determine and document materiality considerations and/or materiality for service performance information to determine the: ... (b) ~~The auditor's~~ <u>Auditor's</u> tolerance ...
35	35. The auditor's procedures shall include obtaining sufficient appropriate audit evidence as to the operating effectiveness of controls over the service performance information ~~when~~ : ¹⁴ (a) <u>When</u> ~~t~~ The auditor's assessment of the risk of material misstatement includes the expectation that controls are operating effectively; or
A13	A13. Some entities may be required to prepare information that is in addition to service performance information addressed in this standard and/or performance information that is required to be audited under legislation. For example, Crown Entities are required to include information on ~~its~~ <u>their</u> obligation to be a good employer.
A22	A22. The entity will need to interpret the applicable financial reporting framework and either select pre-existing external service performance information, including pre-established performance measures and/or descriptions or measurement bases or evaluation methods from guidance, standards, laws or regulation-, or it ...
A25	A25. ... The auditor ~~should~~ <u>may</u> gain an understanding of such

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	events and the impact it has on service performance reporting and whether any alternative elements/aspects of service performance, performance measures and/or descriptions or measurement bases or evaluation methods used are more appropriate and meaningful to fairly reflect the revised activities or services performance of the entity over the period.
A33	A33. The audit of the end of year service performance reporting, can influence ~~how you assess~~ <u>the assessment of</u> the forecast service performance reporting for the following year.
A35	A35. To determine if the service performance information is appropriate and meaningful the auditor ~~should~~ <u>may</u> assess how well the entity has balanced the qualitative characteristics and pervasive constraints when selecting its elements/aspects of service performance, performance measures and/or descriptions, and measurement bases and evaluation methods.
A74	A74. It may be appropriate for an entity to report service performance information about elements/aspects of service performance provided by other entities. ISA (NZ) 402 may be relevant to the audit of service performance information, if the user entity makes use of a service organisation for the preparation of service performance information-.
Appendix 2 Illustrative Audit Engagement Letter including Service Performance Information	... <i>[The responsibilities of the auditor]</i> ... We also: ... • Conclude <u>and report</u> on the appropriateness of the use of the going concern basis of accounting ... <i>[The responsibilities of [Those Charged with Governance] and identification of the applicable financial reporting framework]</i> Our audit will be conducted on the basis that <i>[Those Charged with Governance]</i> acknowledge and understand that they have responsibility on behalf of the entity for: ... • ~~To provide~~ <u>Providing</u> us with: ○ Access to all information of which <i>[management and [Those Charged with Governance]]</i> are aware that is relevant to the preparation of the <i>[financial report/ performance report]</i> such as records, documentation and other matters; ○ Additional information that we may request from <i>[management or [Those Charged with Governance]]</i> for the purpose of the audit, <u>such</u>

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	as a <u>going concern</u> assessment that covers a <u>period of at least twelve months from the date of approval of the [financial report/ performance report]</u>; and ○ Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. ...
Appendix 3 Illustrative Representation Letter including Service Performance Information	... Information Provided ... • We have disclosed to you all information in relation to <u>any</u> fraud or suspected fraud that we are aware of and that affects the entity and involves: ○ Management; ○ Employees who have significant roles in internal control; or ○ Others where the fraud could have <u>an</u> ~~a material~~ effect on the [financial report/ performance report]. (ISA (NZ) 240) • We have disclosed to you all information in relation to ~~allegations of fraud, or~~ suspected fraud, <u>including allegations of fraud</u>, affecting the entity's [financial report/ performance report] communicated by employees, former employees, analysts, regulators or others. (ISA (NZ) 240) • ...
Appendix 4 Illustrative Auditor's Report including Service Performance Information	For purposes of this illustrative auditor's report, the following circumstances are assumed: ... • Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570-(Revised). ... INDEPENDENT AUDITOR'S REPORT To [Appropriate Addressee] Opinion ... Basis for Opinion ... <u>Going Concern</u>

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	<u>In the context of our audit of the [financial report/ performance report], as a whole, and in forming our opinion thereon, we have concluded that [Those Charged with Governance's] use of the going concern basis of accounting in the preparation of the [financial report/ performance report] is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</u> <u>Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.</u> Other Information [or another title if appropriate such as "Information Other than the [Financial Report/ Performance Report] and Auditor's Report Thereon"] ... Auditor's Responsibilities for the Audit of the [Financial Report/ Performance Report] ... We communicate with [Those Charged with Governance] regarding, among other matters, the planned scope and timing of the audit and significant audit findings <u>that we identify during our audit</u>, including any: • ~~s~~<u>Significant deficiencies in internal control that we identify during our audit;</u> • <u>Identified fraud or suspected fraud; and</u> • <u>Other matters related to fraud that are, in our judgement relevant to the responsibilities of [Those Charged with Governance].</u> <u>We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence.</u> ...
Appendix 5	... For purposes of these illustrative auditor's report, the following circumstances are assumed: ... • Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist ~~related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern~~ in accordance with ISA (NZ) 570 (Revised).

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	...
Appendix 5, Illustration 1	INDEPENDENT AUDITOR’S REPORT To <i>[Appropriate Addressee]</i> Opinions ... Basis for Opinions, Including Basis for Qualified Opinion on the Service Performance Information ... <u>Going Concern</u> <u>In the context of our audit of the <i>[financial report/ performance report]</i>, as a whole, and in forming our opinion thereon, we have concluded that <i>[Those Charged with Governance’s]</i> use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</u> <u>Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report and are not a guarantee as to the entity’s ability to continue as a going concern.</u> Other Information [or another title if appropriate such as “Information Other than the <i>[Financial Report/ Performance Report]</i> and Auditor’s Report Thereon”] ...
Appendix 5, Illustration 2	INDEPENDENT AUDITOR’S REPORT To <i>[Appropriate Addressee]</i> Opinions ... Basis for Opinions, Including Basis for Qualified Opinion on the Service Performance Information ... <u>Going Concern</u> <u>In the context of our audit of the <i>[financial report/ performance report]</i>, as a whole, and in forming our opinion thereon, we have concluded that <i>[Those Charged with Governance’s]</i> use of the going concern basis of accounting in the preparation of the <i>[financial report/ performance report]</i> is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast</u>

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	<u>significant doubt on the entity's ability to continue as a going concern.</u> <u>Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.</u> Other Information [or another title if appropriate such as "Information Other than the [<i>Financial Report/ Performance Report</i>] and Auditor's Report Thereon"] ...
Appendix 5, Illustration 3	INDEPENDENT AUDITOR'S REPORT To [<i>Appropriate Addressee</i>] Qualified Opinion ... Basis for Qualified Opinion ... <u>Going Concern</u> <u>In the context of our audit of the [<i>financial report/ performance report</i>], as a whole, and in forming our opinion thereon, we have concluded that [<i>Those Charged with Governance's</i>] use of the going concern basis of accounting in the preparation of the [<i>financial report/ performance report</i>] is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</u> <u>Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are not a guarantee as to the entity's ability to continue as a going concern.</u> Other Information [or another title if appropriate such as "Information Other than the [<i>Financial Report/ Performance Report</i>] and Auditor's Report Thereon"] ...
Appendix 5, Illustration 4	INDEPENDENT AUDITOR'S REPORT To [<i>Appropriate Addressee</i>] Opinions ... Basis for Adverse Opinion on the Service Performance Information ...

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	<u>Going Concern</u> <u>In the context of our audit of the [financial report/ performance report], as a whole, and in forming our opinion thereon, we have concluded that [Those Charged with Governance’s] use of the going concern basis of accounting in the preparation of the [financial report/ performance report] is appropriate. Based on the audit evidence obtained, we have not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.</u> <u>Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report and are not a guarantee as to the entity’s ability to continue as a going concern.</u> Other Information [or another title if appropriate such as “Information Other than the [Financial Report/ Performance Report] and Auditor’s Report Thereon”] ...
International Standard on Auditing (New Zealand) 501, <i>Audit Evidence – Specific Considerations for Selected Items</i>	
NZA1.1	<i>[Move paragraph NZA1.1 to NZA17.1]</i> ~~NZA1.1~~ <u>NZA17.1</u> It is the responsibility...
Footnote 10	¹⁰ ISA (NZ) 700 (Revised), Forming an Opinion and Reporting on Financial Statements, paragraph 41<u>49</u>.
International Standard on Assurance Engagements (New Zealand) 3000 (Revised), <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>	
31. and 32.	Quality Management <i>Characteristics of the Lead Assurance Practitioner</i> 31.The lead assurance practitioner shall: (a) Be a member of a firm that applies Professional and Ethical Standard 3³, or other professional requirements, or requirements in law or regulation, that are at least as demanding as Professional and Ethical Standard 3; (Ref: Para. A60–A66) —————Engagement Resources ~~(aa) Determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm’s~~

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	~~policies or procedures, and any changes that may arise during the engagement.~~ (b) Have competence in assurance skills and techniques developed through extensive training and practical application; and (Ref: Para. A60) (c) Have sufficient competence in the underlying subject matter and its measurement or evaluation to accept responsibility for the assurance conclusion. (Ref: Para. A67–A68) <i>Engagement Resources</i> 32. The lead assurance practitioner shall: (Ref: Para. A69) <u>(a) Determine that sufficient and appropriate resources to perform the engagement are assigned or made available to the engagement team in a timely manner, taking into account the nature and circumstances of the engagement, the firm's policies or procedures, and any changes that may arise during the engagement.</u> (ab) Be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time to: (Ref: Para. A70–A71) (i) Perform the engagement in accordance with relevant standards and applicable legal and regulatory requirements; and (ii) Enable an assurance report that is appropriate in the circumstances to be issued. ~~(bc)~~ Be satisfied that the assurance practitioner will be able to be involved in the work of: (i) An assurance practitioner's expert where the work of that expert is to be used; and (Ref: Para. A70–A71) (ii) Another assurance practitioner, not part of the engagement team, where the assurance work of that assurance practitioner is to be used, (Ref: Para. A72–A73) to an extent that is sufficient to accept responsibility for the assurance conclusion on the subject matter information.
36.	36. For those engagements, if any, for which an engagement quality review is required in accordance with Professional and Ethical Standard 3 or the firm's policies or procedures, the lead assurance practitioner shall discuss significant matters and significant judgements arising during the

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	engagement with the engagement quality reviewer, and not date the assurance report until completion of that review. ⁴ (Ref: Para. A75)
A22	The ISAs (NZ), ISA (NZ) for LCE, ISRE (NZ) and NZ SRE have been written for audits and reviews of historical financial information...
A70.	<i>Assurance Practitioner's Expert</i> (Ref: Para. 32(ab), 32(bc)(i)) ...
A72.	<i>Other Assurance Practitioners</i> (Ref: Para. 32(bc)(ii)) ...
A75.	<i>Engagement Quality Review</i> (Ref: Para. 36(b))
ISAE (NZ) 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information in a Prospectus	
A10.	A10. Professional and Ethical Standard 1 requires the assurance practitioner to comply with the principle of professional competence and due care by attaining and maintaining professional knowledge and skills, in order to ...
Standard on Assurance Engagements 3450, Assurance Over Financial Information Prepared in Connection with a Capital Raising	
Footnote 8	...in accordance with New Zealand ~~Equivalents to International Financial Reporting Standards~~ <u>equivalents to IFRS Accounting Standards</u> ...
A8	A stated basis of preparation may include: • The recognition and measurement principles contained in New Zealand ~~Equivalents to International Financial Reporting Standards~~ <u>equivalents to IFRS Accounting Standards</u> (but not all the presentation and disclosure requirements) and the entity's adopted accounting policies; • The recognition and measurement principles contained in New Zealand ~~Equivalents to International Financial Reporting Standards~~ <u>equivalents to IFRS Accounting Standards</u> adjusted for pro forma adjustments, selected by the responsible party and disclosed in the applicable disclosure document; or ...
Appendix 1 Illustrative Engagement Letter	... Review of Historical Financial Information

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
	<i>Objective of the Review Engagement</i> ... The Historical Financial Information does not comprise a full set of financial statements and will be prepared in accordance with the recognition and measurement principles of IFRS <u>Accounting Standards</u> and New Zealand equivalents to IFRS <u>Accounting Standards</u> (NZ IFRS) and the Company's adopted accounting policies. ... <i>Scope of the Review Engagement</i> ...being the recognition and measurement principles contained in IFRS <u>Accounting Standards</u> and NZ IFRS and the Company's adopted accounting policies. ... <i>Scope of the limited assurance engagement</i> ... i. Pro Forma Historical Financial Information: ... being the recognition and measurement principles of IFRS <u>Accounting Standards</u> and NZ IFRS ... ii. PFI: ...being the recognition and measurement principles contained in IFRS <u>Accounting Standards</u> and NZ IFRS ... iii. Pro Forma PFI: ...being the recognition and measurement principles contained in IFRS <u>Accounting Standards</u> and NZ IFRS...
Appendix 2 Illustrative Representation Letter	... Historical financial information and pro forma historical financial information ...being the recognition and measurement principles contained in IFRS <u>Accounting Standards</u> and New Zealand equivalents to IFRS <u>Accounting Standards</u> NZ IFRS and the Company's adopted accounting policies, ...
Appendix 3 Illustrative Assurance Reports: Illustration 1	INDEPENDENT LIMITED ASSURANCE REPORT To [Appropriate Addressee] Conclusions Historical financial information ...being the recognition and measurement principles contained in New Zealand ~~Equivalents to International Financial Reporting Standards~~ <u>equivalents to IFRS Accounting Standards</u> (NZ IFRS) and the Company's adopted accounting policies. ...

AMENDMENTS TO ASSURANCE STANDARDS 2025

Ref.	Amendments to Assurance Standards
Appendix 3 Illustrative Assurance Reports: Illustration 2	INDEPENDENT LIMITED ASSURANCE REPORT To [<i>Appropriate Addressee</i>] Conclusions Historical financial information ... being the recognition and measurement principles contained in <u>IFRS Accounting Standards</u> ~~International Financial Reporting Standards (IFRS)~~ and New Zealand equivalents to <u>IFRS Accounting Standards</u> ~~International Financial Reporting Standards (NZ IFRS)~~ and the Company's adopted accounting policies. Pro Forma historical financial information ... being the recognition and measurement principles of <u>IFRS Accounting Standards</u> and NZ IFRS and the Company's adopted accounting policies ... Prospective financial information (PFI) ...contained in <u>IFRS Accounting Standards</u> and NZ IFRS and the Company's adopted accounting policies. ... Pro Forma Prospective financial information ... contained in <u>IFRS Accounting Standards</u> and NZ IFRS ... Financial Information subject to assurance ...measurement principles of ~~International Financial Reporting Standards~~ <u>IFRS Accounting Standards</u> ~~(IFRS)~~ and New Zealand equivalents to <u>IFRS Accounting Standards</u> ~~Equivalents to International Financial Reporting Standards~~ (NZ IFRS) ...
International Standard on Related Services (New Zealand) 4400, <i>Agreed-upon Procedures Engagements</i>	
A14	...Professional and Ethical Standard 1 requires practitioners to comply with fundamental principles including objectivity, which requires practitioners not to compromise their professional or business judgement because of bias, conflict of interest or the undue influence of others, or undue reliance on, individuals, organisations, technology, or other factors. ...

AMENDMENTS TO ASSURANCE STANDARDS 2025

Minimum Legislative Information

(This information is not part of the standard)

This Standard is secondary legislation issued under the authority of the Legislation Act 2019.

Title	Amendments to Assurance Standards 2025
Principal or amendment	Amendment
Consolidated version	No
Empowering Act and provisions	This Standard was made under 12(b) of the <u>Financial Reporting Act 2013</u> .
Replacement empowering Act and provision	Not applicable.
Maker name	New Zealand Auditing and Assurance Standards Board of the External Reporting Board
Administering agency	External Reporting Board
Date made	24 October 2025
Publication date	30 October 2025
Notification date	30 October 2025
Commencement date	This Standard takes effect on 27 November 2025.
End date	Not applicable
Consolidation as at date	Not applicable
Related instruments	<u>XRB Au 1 Application of Auditing and Assurance Standards</u> <u>Professional and Ethical Standard 1 International Code of</u> <u>Ethics for Assurance Practitioners (including International</u> <u>Independence Standards) (New Zealand)</u> <u>Professional and Ethical Standard 3 Quality Management for</u> <u>Firms that Perform Audits or Reviews of Financial Statements,</u> <u>or Other Assurance or Related Services Engagements</u> <u>Professional and Ethical Standard 4 Engagement Quality</u> <u>Reviews</u> <u>NZ AS 1 (Revised) The Audit of Service Performance</u> <u>Information</u> <u>ISA (NZ) 501 Audit Evidence – Specific Considerations for</u> <u>Selected Items</u> <u>ISAE (NZ) 3000 (Revised) Assurance Engagements Other than</u> <u>Audits or Reviews of Historical Financial Information</u> <u>SAE 3450 Assurance Over Financial Information Prepared in</u> <u>Connection with a Capital Raising</u> <u>ISRS (NZ) 4400 Agreed-upon Procedures Engagements</u>