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This standard was published in the *Gazette* on 5 February 2026 and takes effect on 5 March 2026. There is an [explanatory note](#) at the end of this standard that includes an explanation of how and from when this standard operates.

## **International Standard on Auditing (New Zealand) 260, *Communication with Those Charged with Governance***

This Standard was issued under section 12(b) of the [Financial Reporting Act 2013](#) by the New Zealand Auditing and Assurance Standards Board

- (a) acting under delegated authority of the External Reporting Board (given in accordance with section 73 of the Crown Entities Act 2004); and
- (b) after complying with section 22 of the Financial Reporting Act 2013.

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## Schedule 1

~~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 of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.**

## Title

0.1 This is the International Standard on Auditing (New Zealand) 260, *Communication with Those Charged with Governance*.

## Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

## Interpretation

0.3 In this standard **ISA (NZ) 260** means the International Standard on Auditing (New Zealand) 260, *Communication with Those Charged with Governance*.

**Application**

0.4 This standard commences to apply in relation to accounting periods that begin on or after 15 December 2026.

**Revocation**

0.5 The standard International Standard on Auditing (New Zealand) 260 (Revised), *Communication with Those Charged with Governance* issued in October 2015 is revoked on the date that this standard takes effect. To avoid doubt, the revoked standard continues to apply in relation to accounting periods that begin before 15 December 2026.

**Transitional, savings, and related provisions**

0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.

## 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.

NZ1.2 This standard must be read in conjunction with 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)*, and any other applicable standards.

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) 265<sup>1</sup> 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~~A34–~~A36~~A37)

### 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

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<sup>1</sup> ISA (NZ) 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

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
  - (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]. [See paragraphs 0.2 and 0.4.]~~

## 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
- (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:
  - (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)
18. 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 relevant ethical requirements regarding independence.
19. [Amended by the NZAuASB]

### Auditor Independence

[Amended by the NZAuASB].

18. ~~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:~~  
~~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~~

~~— [Amended by the NZAuASB]~~

NZ19.1 -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) ~~(i)~~—All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgement, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and (Ref: Para A30)
- (b) ~~(ii)~~—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. A31 ~~10~~ ~~NZA33-42~~)



## The Communication Process

### *Establishing the Communication Process*

~~19.20.~~ The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (Ref: Para. ~~A37A38–A45A46~~)

### *Forms of Communication*

~~20.21.~~ 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. ~~A46A47–A48A49~~)

~~21.22.~~ The auditor shall communicate in writing with those charged with governance regarding auditor independence ~~when as~~ required by paragraphs 17 ~~NZ–19.1~~.

### *Timing of Communications*

~~22.23.~~ The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. ~~A49A50–A50A51~~)

### *Adequacy of the Communication Process*

~~23.24.~~ 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. ~~A51A52–A53A54~~)

## Documentation

~~24.25.~~ 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.<sup>2</sup> (Ref: Para. ~~A54A55~~)

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## 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:

<sup>2</sup> ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11, and A6

- 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 approving<sup>3</sup> 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 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)~~<sup>4</sup> 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.<sup>5</sup> The matters communicated may include

<sup>3</sup> 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.

<sup>4</sup> ISA (NZ) 315 ~~(Revised 2019)~~, *Identifying and Assessing the Risks of Material Misstatement*

<sup>5</sup> ISA (NZ) 600 ~~(Revised)~~, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 578

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.<sup>6</sup> 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:
- 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.

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<sup>6</sup> ISA (NZ) 600 (Revised), paragraph 465(i)

*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.<sup>7</sup> 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 letter<sup>8</sup> 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) 701<sup>9</sup> 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.

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

<sup>7</sup> See paragraph 10 of ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*.

<sup>8</sup> 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.

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

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.<sup>10</sup>
- 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.<sup>11</sup>
- 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:

<sup>10</sup> ISA (NZ) 320, *Materiality in Planning and Performing an Audit*

<sup>11</sup> See ISA (NZ) 620, *Using the Work of an Auditor's Expert*.

- 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.<sup>12</sup>
- 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

<sup>12</sup> ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 48-20 and paragraph 31

misstatement of the other information exists in other information obtained after the date of the auditor's report.

- 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.<sup>13</sup>

*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

<sup>13</sup> ISA (NZ) 701, paragraphs 9–10

management's point estimate and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework. Open and constructive communication about significant qualitative aspects of the entity's accounting practices also may include comment on the acceptability of significant accounting practices and on the quality of the disclosures. When applicable, this may include whether a significant accounting practice of the entity relating to accounting estimates is considered by the auditor not to be 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 requested.<sup>14</sup>

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.<sup>15</sup>

#### 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.

<sup>14</sup> See ISA 570 (NZ), *Going Concern*, paragraph 42-(c)

<sup>15</sup> ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*



- 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))

##### 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.<sup>16</sup> 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.<sup>17</sup> 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)~~.<sup>18</sup>
- A material uncertainty related to going concern is reported in accordance with ISA (NZ) 570-~~(Revised)~~.<sup>19</sup>
- Key audit matters are communicated in accordance with ISA (NZ) 701.<sup>20</sup>
- The auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matters paragraph in accordance with ISA (NZ) 706-~~(Revised)~~<sup>21</sup> or is required to do so by other ISAs (NZ).

<sup>16</sup> ISA (NZ) 210, paragraph 9

<sup>17</sup> ISA (NZ) 210, paragraph 10

<sup>18</sup> ISA (NZ) 705-~~(Revised)~~, paragraph 30

<sup>19</sup> ISA (NZ) 570-~~(Revised)~~, *Going Concern*, paragraph ~~42(f)~~ 25(d)

<sup>20</sup> ISA (NZ) 701, paragraph 17

<sup>21</sup> ISA (NZ) 706-~~(Revised)~~, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 12

- The auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with ISA (NZ) 720-~~(Revised)~~<sup>22</sup>.

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.<sup>23</sup> The auditor also may communicate with those charged with governance in 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)~~.<sup>24</sup>

#### Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(e))

A26. ISA (NZ) 300<sup>25</sup> 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–NZ 19.116A–17~~)

A29. The auditor is required to comply with relevant ethical requirements, including those related to independence, relating to financial statement audit engagements<sup>26</sup> and to communicate with those charged with governance about the requirements the auditor applies. Relevant ethical requirements may:

<sup>22</sup> ISA (NZ) 720-~~(Revised)~~, *The Auditor's Responsibilities Relating to Other Information*, paragraph 18(a)

<sup>23</sup> ISA (NZ) 700-~~(Revised)~~, paragraphs 46 and A634

<sup>24</sup> ISA (NZ) 700-~~(Revised)~~, paragraph 41

<sup>25</sup> ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph A186

<sup>26</sup> ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 164

- 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 (PES) 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.<sup>27</sup> ISA (NZ) 700—(Revised) addresses the requirements for the auditor's report relating to the auditor's independence and the relevant ethical requirements the auditor applied.<sup>28</sup>
- 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.<sup>29</sup> 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 PES 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 fees<sup>30</sup>, including fees for sustainability assurance engagements, and the provision of non-assurance services for audit clients that are public interest entities<sup>31</sup>.

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

<sup>27</sup> See, for example, the public disclosure requirements in Professional and Ethical Standard PES 1, paragraphs R400.25–R400.26.

<sup>28</sup> ISA (NZ) 700—(Revised), paragraph 28(c)

<sup>29</sup> See, for example, encouragement in the application material in PES 1, paragraph 400.24 A1.

<sup>30</sup> See, for example, paragraphs R410.23–R410.28 of PES Professional and Ethical Standard 1

<sup>31</sup> See, for example, paragraphs R600.21–R600.23 of Professional and Ethical Standard PES 1

~~Standard PES 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.<sup>32</sup>

A33. [Amended by the NZAuASB].

NZA332.1 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~~ 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.<sup>33</sup> ~~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, and other entities such as not-for-profit organisations. 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 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:

<sup>32</sup> See, for example, paragraphs R400.80–R400.82 and R400.84 of ~~Professional PES and Ethical Standard 1~~

<sup>33</sup> ISA (NZ) 200, paragraph A14

- (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. 2048)*

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.
- 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:
- (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 action<sup>34</sup>;
  - 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.

<sup>34</sup> [NZ] In New Zealand, material misstatements are communicated through the auditor's report.

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. 21+9)

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.
- 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. 23+1)

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.<sup>35</sup>
- 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:

- 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)

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<sup>35</sup> ISA (NZ) 265, paragraphs 9 and A14



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.<sup>36</sup> 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.

<sup>36</sup> ISA (NZ) 315—(Revised 2019), Appendix 3

- 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.

## 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 3<sup>37</sup> 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~~ PES 3, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements – paragraph ~~37~~64(e)
- ~~ISA (NZ) 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements~~ – paragraphs ~~21, 38(e)(i), 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 ~~38~~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 ~~58~~7
- ~~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

<sup>37</sup> 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.

- ISA (NZ) 705 (~~Revised~~), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30
- 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

## 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.
- 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.

## **Schedule 1**

### **Transitional, savings, and related provisions**

#### **Part 1 Provisions relating to this standard as made**

There are no transitional, savings, or related provisions in this standard as made.

**Issued at Wellington on 30 January 2026**

Graeme Pinfold

Chair

New Zealand Auditing and Assurance Standards Board acting under delegated authority of the  
External Reporting Board

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## EXPLANATORY NOTE AND OTHER INFORMATION

*This note and other information are not part of the standard*

### Explanatory note

This standard is the International Standard on Auditing (New Zealand) 260, *Communication with Those Charged with Governance*.

This standard is the New Zealand equivalent of International Standard on Auditing 260 (Revised), *Communication with Those Charged with Governance*, and results from revisions to international standards issued by the International Auditing and Assurance Standards Board relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

This standard applies to accounting periods that begin on or after 15 December 2026.

This standard was issued by the New Zealand Auditing and Assurance Standards Board acting under delegated authority of the External Reporting Board.

This standard revokes the ISA (NZ) 260 (Revised) *Communication with Those Charged with Governance* issued in October 2015. However, that standard continues to apply in relation to accounting periods that begin before 15 December 2026 as if that standard had not been revoked. (see Legislation Act 2019).

### Conformity with International Standards on Auditing

This Standard conforms to International Standard on Auditing ISA 260 (Revised) *Communication with Those Charged with Governance*, issued by the International Auditing and Assurance Standards Board.

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 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:



- 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)

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## History of Amendments

### Table of instruments – ISA (NZ) 260

This table lists the instruments amending this standard.

Instrument	Date made	Application date

## Minimum Legislative Information

**This Standard is secondary legislation published under the Legislation Act 2019.**

**Title** International Standard on Auditing (New Zealand) 260,  
*Communication with Those Charged with Governance*

**Principal or amendment** Principal

**Consolidated version** No

**Empowering Act and provisions** Section 12(b) of the Financial Reporting Act 2013

**Replacement empowering Act and provision**

**Maker name** New Zealand Auditing and Assurance Standards Board acting under delegated authority of the External Reporting Board

**Administering agency** External Reporting Board

**Date made** 30 January 2026

**Publication date** 5 February 2026

**Notification date** 5 February 2026

**Commencement date** 5 March 2026

**End date**

**Consolidation as at date**

**Related instruments**