



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 700

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

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

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INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) 700
FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

Issued by the New Zealand Auditing and Assurance Standards Board

CONTENTS

	Paragraph
History of Amendments	
Introduction	
Scope of this ISA (NZ)	1-4
Effective Date	5
Objectives	6
Definitions	7-9
Requirements	
Forming an Opinion on the Financial Statements	10-15
Form of Opinion	16-19
Auditor's Report	20-45
Supplementary Information Presented with the Financial Statements	46-47
Application and Other Explanatory Material	
Qualitative Aspects of the Entity's Accounting Practices	A1-A3
Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements	A4
Description of the Applicable Financial Reporting Framework	A5-A10
Form of Opinion	A11-A12
Auditor's Report	A13-A44
Supplementary Information Presented with the Financial Statements	A45-A51
Appendix 1: Illustrations of Auditors' Reports on Financial Statements	
Appendix 2: Existence of any Other Relationship of the Auditor with the Entity	
Accompanying Attachment: Conformity to the International Standards on Auditing	

International Standard on Auditing (New Zealand) (ISA (NZ)) 700, "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)."

History of Amendments

Table of pronouncements – ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statements*

This table lists the pronouncements establishing and amending ISA (NZ) 700.

Pronouncements	Date approved	Early operative date	Effective date
International Standard on Auditing (New Zealand) 700	July 2011	-	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) <i>Code of Ethics for Assurance Practitioners</i>	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
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

Table of Amended Paragraphs in ISA (NZ) 700

Paragraph affected	How affected	By...[date]
NZA27.1	Amended	Professional and Ethical Standard 1 (Revised) [Jan 2013]
A23	Amended	ISA (NZ) 610 (Revised 2013) [April 2013]
Various	Amended	Use of management and those charged with governance [Dec 2013]

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) 705¹ and ISA (NZ) 706² 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.
3. This ISA (NZ) is written in the context of a complete set of general purpose financial statements. ISA (NZ) 800³ deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA (NZ) 805⁴ 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.
4. This ISA (NZ) promotes consistency in the auditor's report. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs (NZ), which are consistent with International Standards on Auditing (ISAs) 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 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.

Effective Date

5. This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011.

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

¹ ISA (NZ) 705, "Modifications to the Opinion in the Independent Auditor's Report."

² ISA (NZ) 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report."

³ ISA (NZ) 800, "Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks."

⁴ ISA 805 (NZ), "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement."

- (b) To express clearly that opinion through a written report that also describes the basis for that opinion.

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:

- (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.⁵

- (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.⁶
8. Reference to “financial statements” in this ISA (NZ) means “a complete set of general purpose financial statements, including the related notes.” The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.
9. Reference to “International Financial Reporting Standards” in this ISA (NZ) means the International Financial Reporting Standards issued by the International Accounting Standards Board, and reference to “International Public Sector Accounting Standards” means the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board.

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),” paragraph 13(a).

⁶ Paragraphs 35-36 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

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.^{7,8}
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 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;⁹
 - (b) The auditor's conclusion, in accordance with ISA (NZ) 450, whether uncorrected misstatements are material, individually or in aggregate;¹⁰ 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.¹¹ (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 adequately disclose the significant accounting policies selected and applied;
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates made by management are reasonable;
 - (d) The information presented in the financial statements is relevant, reliable, comparable and understandable;
 - (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. A4)
 - (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

⁷ ISA (NZ) 200, paragraph 11.

⁸ Paragraphs 35-36 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) 330, "The Auditor's Responses to Assessed Risks," paragraph 26.

¹⁰ ISA (NZ) 450, "Evaluation of Misstatements Identified during the Audit," paragraph 11.

¹¹ Management bias is defined in ISA (NZ) 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures," paragraph 7(d), as "a lack of neutrality by management and/or those charged with governance in the preparation and presentation of information."

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 financial statements achieve fair presentation shall include consideration of:
 - (a) The overall presentation, structure and content of the financial statements; and
 - (b) Whether the financial statements, including the related notes, 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. A5-A10)

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.
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. (Ref: Para. A11)
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. A12)

Auditor's Report

20. The auditor's report shall be in writing. (Ref: Para. A13-A14)

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. A15)

Addressee

22. The auditor's report shall be addressed as required by the circumstances of the engagement. (Ref: Para. A16)

Introductory Paragraph

23. The introductory paragraph in the auditor's report shall: (Ref: Para. A17-A19)
- (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 that comprises the financial statements;
 - (d) Refer to the summary of significant accounting policies and other explanatory information; and
 - (e) Specify the date or period covered by each financial statement comprising the financial statements.

The Responsibility of Those Charged with Governance for the Financial Statements

24. [Amended by the NZAuASB.]

NZ24.1 This section of the auditor's report describes the responsibilities of those in the organisation that are responsible for the preparation of 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".

25. [Amended by the NZAuASB.]

NZ25.1 The auditor's report shall include a section with the heading [Directors' or other appropriate term] Responsibility for the Financial Statements."

26. [Amended by the NZAuASB.]

NZ26.1 The auditor's report shall describe the responsibility of those charged with governance for the preparation of the financial statements. The description shall include an explanation that those charged with governance are responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework, and 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. (Ref: Para. A20- A22)

27. [Amended by the NZAuASB.]

NZ27.1 Where the financial statements are prepared in accordance with a fair presentation framework, the explanation of the responsibility of those charged with governance 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 Responsibility

28. The auditor's report shall include a section with the heading "Auditor's

Responsibility.”

29. The auditor’s report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref: Para. A24)
 30. The auditor’s report shall state that the audit was conducted in accordance with International Standards on Auditing (New Zealand). The auditor’s report shall also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref: Para. A25-A26)
 31. The auditor’s report shall describe an audit by stating that:
 - (a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;
 - (b) The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s 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 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 internal control; and
 - (c) An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.
 32. Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit in the auditor’s report shall refer to “the entity’s preparation and fair presentation of the financial statements” or “the entity’s preparation of financial statements that give a true and fair view,” as appropriate in the circumstances.
 33. The auditor’s report shall state 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.
- NZ 33.1 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. 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.

Auditor’s Opinion

34. The auditor’s report shall include a section with the heading “Opinion.”
35. 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: (Ref: Para. A27-A33)

- (a) The financial statements present fairly, in all material respects, ... in accordance with [the applicable financial reporting framework]; or
 - (b) The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework].
36. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A27, A29-A33)
37. If the reference to the applicable financial reporting framework in the auditor's opinion is not to International Financial Reporting Standards issued by the International Accounting Standards Board or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework.

Other Reporting Responsibilities

38. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the ISAs (NZ) to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. (Ref: Para. A34-A35)
39. If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations referred to in paragraphs 23-37 shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements." (Ref: Para. A36)

Signature of the Auditor

40. The auditor's report shall be signed. (Ref: Para. A37)

Date of the Auditor's Report

41. 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. A38-A41)
- (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and
 - (b) Those with the recognised authority have asserted that they have taken responsibility for those financial statements.

Auditor's Address

42. The auditor's report shall name the location where the auditor practises.

Auditor's Report Prescribed by Law or Regulation

43. [Amended by the NZAuASB.]

NZ43.1 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 include, at a minimum, each of the following elements: (Ref: Para. A42)

- (a) A title;
- (b) An addressee, as required by the circumstances of the engagement;
- (c) An introductory paragraph that identifies the financial statements audited;
- (d) A description of the responsibility of those charged with governance (or other appropriate term, see paragraph 24) for the preparation of the financial statements;
- (e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:
 - A reference to International Standards on Auditing (New Zealand) and the law or regulation; and
 - A description of an audit in accordance with those standards;
- (f) An opinion paragraph 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 or International Public Sector Accounting Standards, see paragraph 37);
- (g) The auditor's signature;
- (h) The date of the auditor's report; and
- (i) The auditor's address.

NZ43.2 If the prescribed layout or wording do not meet the minimum requirements above, the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ).¹²

Auditor's Report for Audits Conducted in Accordance with Both New Zealand's Auditing Standards and International Standards on Auditing

44. An auditor is required to conduct an audit in accordance with the ISAs (NZ). Compliance with 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). (Ref: Para. A43-A44)
45. 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. *Paragraph not relevant in New Zealand – see paragraph 30.*

¹² See ISA (NZ) 210, "Agreeing the Terms of Audit Engagements," paragraphs 21 and NZ 21.1.

Supplementary Information Presented with the Financial Statements (Ref: Para. A45-A51)

46. 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 such supplementary information is clearly differentiated from the audited financial statements. If such supplementary information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall explain in the auditor's report that such supplementary information has not been audited.
47. Supplementary information that is not required by the applicable financial reporting framework but is nevertheless an integral part of the financial statements because it cannot be clearly differentiated from the audited financial statements due to its nature and how it is presented shall be covered by the auditor's opinion.

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 contains a discussion of the qualitative aspects of accounting practices.¹³ 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 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 (for example, 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.¹⁴ 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.

¹³ ISA (NZ) 260, "Communication with Those Charged with Governance," Appendix 2.

¹⁴ ISA (NZ) 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures," paragraph 21.

Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: Para. 13(e))

- A4. 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. In such circumstances, the auditor evaluates whether 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.

Description of the Applicable Financial Reporting Framework (Ref: Para. 15)

- A5. 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.¹⁵ That description is important because it advises users of the financial statements of the framework on which the financial statements are based.
- A6. 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.
- A7. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, "the financial statements are in substantial compliance with International Financial Reporting 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

- A8. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (for example, generally accepted accounting practice in New Zealand and International Financial Reporting Standards). This may be because management is required, or have 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. Non-public benefit entities who do not qualify for differential reporting concessions, or who are qualifying entities but elect not to apply any of the differential reporting concessions available in the *Framework for Differential Reporting*, will be able to claim compliance with International Financial Reporting Standards if they comply with all the requirements of the New Zealand Equivalents to International Financial Reporting Standards.
- A9. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the

¹⁵ ISA (NZ) 200, paragraphs A2-A3.

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.

- A10. 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 (for example, financial statements prepared in accordance with the national framework that also describe the extent to which they comply with International Financial Reporting Standards). Such description is supplementary financial information and, as discussed in paragraph 47, is considered an integral part of the financial statements and, accordingly, is covered by the auditor's opinion.

Form of Opinion (Ref: Para. 18-19)

- A11. 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.
- A12. 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.¹⁶

Auditor's Report (Ref: Para. 20)

- A13. A written report encompasses reports issued in hard copy format and those using an electronic medium.
- A14. Appendix 1 contains illustrations of auditors' reports on financial statements, incorporating the elements set forth in paragraphs 21-42.

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing (New Zealand)

Title (Ref: Para. 21)

- A15. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others.

Addressee (Ref: Para. 22)

- A16. Law or regulation often specifies 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 to the shareholders of the entity whose financial statements are being audited, or to the readers of the financial statements (in the case of public sector entities).

¹⁶ ISA (NZ) 210, "Agreeing the Terms of Audit Engagements," paragraph 6(a).

Introductory Paragraph (Ref: Para. 23)

- A17. The introductory paragraph states, for example, that the auditor has audited the accompanying 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 the summary of significant accounting policies and other explanatory information.
- A18. 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.
- A19. 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 include: a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and a summary of significant accounting policies and other explanatory information. In some jurisdictions additional information might also be considered to be an integral part of the financial statements.

The Responsibility of Those Charged with Governance for the Financial Statements (Ref: Para. 26)

- A20. [Amended by the NZAuASB.]
- NZA20.1 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.¹⁷ 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.
- A21. [Amended by the NZAuASB.]
- NZA21.1 There may be circumstances when it is appropriate for the auditor to add to the description of the responsibility of those charged with governance in paragraph 26 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.
- A22. [Amended by the NZAuASB.]
- NZA22.1 Paragraph 26 is consistent with the form in which the responsibilities are agreed in the engagement letter or other suitable form of written agreement, as required by

¹⁷ ISA (NZ) 200, paragraph 13(j).

ISA (NZ) 210.¹⁸ ISA (NZ) 210 provides some flexibility 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 of those charged with governance as required by paragraph 26. 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 of paragraph 26 is used.

- A23. In some jurisdictions, law or regulation prescribing management's responsibilities 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 internal control (as defined by ISA (NZ) 315 (Revised)¹⁹), the descriptions in ISA (NZ) 210 do not make specific reference to them.

Auditor's Responsibility (Ref: Para. 29-30)

- A24. The auditor's report states that the auditor's responsibility is to express an opinion on the financial statements based on the audit in order to contrast it to management's responsibility for the preparation of the financial statements.
- A25. 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.
- A26. In accordance with ISA (NZ) 200, the auditor does not represent compliance with ISAs (NZ) or ISAs in the auditor's report unless the auditor has complied with the requirements of ISA (NZ) 200 and all other ISAs (NZ) relevant to the audit.²⁰

Auditor's Opinion (Ref: Para. 35-37)

Wording of the auditor's opinion prescribed by law or regulation

- A27. ISA (NZ) 210 explains that, in some cases, law or regulation of the relevant jurisdiction prescribes the wording of the auditor's report (which in particular includes the auditor's opinion) in terms that are significantly different from the requirements of ISAs (NZ). 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.

¹⁸ ISA (NZ) 210, paragraphs 6(b)(i)-(ii).

¹⁹ ISA (NZ) 315 (Revised), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraph 4(c).

²⁰ ISA (NZ) 200, paragraph 20. Compliance with all ISAs (NZ) relevant to the auditor will mean compliance with ISAs.

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).²¹

NZA27.1 Professional and Ethical Standard 1 (Revised),²² requires assurance practitioners to act in accordance with the standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Auditing and Assurance Standards Board; therefore assurance practitioners shall not sign an audit report that does not conform to the requirements of this ISA (NZ). In the extremely rare situation described above, the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ).

“Present fairly, in all material respects” or “give a true and fair view”

A28. Whether the phrase “present fairly, in all material respects,” or the phrase “give a true and fair view” is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. 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.

Description of information that the financial statements present

A29. 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 information that the financial statements are designed to present, for example, in the case of many general purpose frameworks, 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.

Description of the applicable financial reporting framework and how it may affect the auditor’s opinion

A30. 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” or

“... in accordance with generally accepted accounting practice in New Zealand.”

A31. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such

²¹ ISA (NZ) 210, paragraph 21.

²² PES-1 (Revised), “Code of Ethics for Assurance Practitioners”.

terms as “... in accordance with International Financial Reporting 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.²³

A32. As indicated in paragraph A8, 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 35-36 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 (for example, generally accepted accounting practice in New Zealand) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (for example, International Financial Reporting Standards). These opinions may be expressed separately or in a single sentence (for example, the financial statements are presented fairly, in all material respects, in accordance with generally accepted accounting practice in New Zealand and with International Financial Reporting 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 (for example, the national framework) but a modified opinion given with regard to the other framework (for example, International Financial Reporting Standards) in accordance with ISA (NZ) 705.

A33. As indicated in paragraph A10, 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. As explained in paragraph A46, such supplementary information is covered by the auditor’s opinion as it cannot be clearly differentiated from the financial statements.

- (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.
- (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, drawing attention to the disclosure.

Other Reporting Responsibilities (Ref: Para. 38-39)

A34. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor’s responsibility under the ISAs (NZ) to report on the financial statements. For example, the auditor may be asked to report certain matters if they come to the auditor’s attention during the course of the

²³ ISA (NZ) 210, paragraph 18.

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.

- A35. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the 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.
- A36. These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibility under the ISAs (NZ) to report on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s).

Signature of the Auditor (Ref: Para. 40)

- A37. The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular engagement. In addition to the auditor's signature, in certain jurisdictions, 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 in that jurisdiction.

Date of the Auditor's Report (Ref: Para. 41)

- A38. 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) 560.²⁴
- A39. 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 that comprise the financial statements, including the related notes, have been prepared and management has accepted responsibility for them.
- A40. In some types of entities, law or regulation identifies the individuals or bodies (for example, the directors) 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 process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other cases, 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

²⁴ ISA (NZ) 560, "Subsequent Events," paragraphs 10-17.

process at which the audit is expected to be complete.

- A41. In some cases, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these situations, final approval by shareholders is not necessary for the auditor to conclude that sufficient 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 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 them.

Auditor's Report Prescribed by Law or Regulation (Ref: Para. 43)

- A42. ISA (NZ) 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to ISAs (NZ).²⁵ Where this is the case, the auditor may be obliged to use a layout or wording in the auditor's report that differs from that described in this ISA (NZ). As explained in paragraph 4, 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 and ISAs (NZ) relate only to the layout and wording of the auditor's report and, at a minimum, each of the elements identified in paragraph 43(a)(i) are 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 ISAs (NZ), even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements. Where specific requirements in a particular jurisdiction do not conflict with ISAs (NZ), adoption of the layout and wording used in this ISA (NZ) assists users of the auditor's report more readily to recognise the auditor's report as a report on an audit conducted in accordance with ISAs (NZ). (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 requirements of ISAs (NZ).)

Auditor's Report for Audits Conducted in Accordance with Both New Zealand Auditing Standards and International Standards on Auditing (Ref: Para. 44)

- A43. 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 New Zealand auditing standards when the auditor complies with each of the ISAs (NZ) relevant to the audit.²⁶
- A44. 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 paragraph that, in the particular circumstances, is required by ISAs. For example, some national auditing

²⁵ ISA (NZ) 200, paragraph A55.

²⁶ ISA (NZ) 200, paragraph A56.

standards prohibit the auditor from including an Emphasis of Matter paragraph to highlight a going concern problem, whereas ISA 570 requires the auditor to add an Emphasis of Matter paragraph in such circumstances.²⁷ 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. 46-47)

- A45. In some circumstances, the entity may be required by law, regulation or standards, 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 financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.
- A46. The auditor's opinion covers supplementary information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented. For example, this would be the case when the notes to the financial statements include an explanation of the extent to which the financial statements comply with another financial reporting framework. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
- A47. Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the introductory paragraph of the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the introductory paragraph is sufficient.
- A48. Law or regulation may not require that the supplementary information be audited, and management may decide not to ask the auditor to include the supplementary information within the scope of the audit of the financial statements.
- A49. 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 labeled as "unaudited."
- A50. 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 place the unaudited notes together at the end of the required notes to the financial statements and clearly label them as unaudited. Unaudited notes that are

²⁷ ISA 570, "Going Concern," paragraph 19.

intermingled with the audited notes can be misinterpreted as being audited.

- A51. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited financial statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in ISA (NZ) 720.²⁸

²⁸ ISA (NZ) 720, "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements."

Appendix 1

(Ref: Para. A14)

Illustrations of Auditors' Reports on Financial Statements

- Illustration 1: An entity not subject to the Financial Reporting Act 1993. An auditor's report on financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, generally accepted accounting practice in New Zealand).
- Illustration 2: A company, other than an exempt company. [Therefore subject to the Financial Reporting Act 1993.]
- Illustration 3: An exempt company as defined by the Financial Reporting Act 1993.
- Illustration 4: An auditor's report on financial statements prepared in accordance with a compliance framework designed to meet the common financial information needs of a wide range of users.
- Illustration 5: An auditor's report on consolidated financial statements prepared for a reporting entity as defined by the Financial Reporting Act 1993.

Illustration 1:

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by management of the entity in accordance with generally accepted accounting practice in New Zealand.**
- **The entity is NOT subject to the Financial Reporting Act 1993 or any other legislation.**
- **The terms of the audit engagement reflect description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**
- **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 Beneficiaries of ABC Trust

Report on the Financial Statements¹

We have audited the financial statements of ABC Trust on pages to, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity [and cash flow statement]² for the year then ended, and a summary of significant accounting policies and other explanatory information.

Trustees'³ Responsibility for the Financial Statements

The trustees are responsible for the preparation and fair presentation⁴ of these financial statements in accordance with generally accepted accounting practice in New Zealand and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

¹ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

² If one is prepared.

³ Or other term that is appropriate for the nature of the entity.

⁴ Where the responsibility of those charged with governance is to prepare financial statements that give a true and fair view, this may read: "The trustees are responsible for the preparation of financial statements that give a true and fair view of the matters to which they relate and in accordance with generally accepted accounting practice in New Zealand and for such..."

judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation⁵ 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 the entity's internal control.⁶ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, ABC Trust.

Opinion

In our opinion, the financial statements on pages topresent fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Trust as at December 31, 20X1, and (of) its financial performance [and its cash flows]⁷ for the year then ended in accordance with generally accepted accounting practice in New Zealand.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

⁵ In the case of footnote 4, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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."

⁶ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

⁷ If a cash flow statement is prepared.

Illustration 2:

Circumstances include the following:

- **Audit of a complete set of financial statements of a reporting entity (in this case a company) as defined by the Financial Reporting Act 1993.**
- **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.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited

Report on the Financial Statements

We have audited the financial statements of ABC Limited on pages to, 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 a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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.⁸ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

⁸ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

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, ABC Limited.

Opinion

In our opinion, the financial statements on pages to:

- comply with generally accepted accounting practice in New Zealand;⁹
- give a true and fair view of the financial position of ABC Limited as at December 31, 20X1 and its financial performance and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by ABC Limited as far as appears from an examination of those records.

[Add any matters required to be included under any other legislation or regulation.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

⁹ May also include: comply with International Financial Reporting Standards, if appropriate.

Illustration 3:

Circumstances include the following:

- **Audit of a complete set of financial statements of an exempt company as defined by the Financial Reporting Act 1993.**
- **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.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited

Report on the Financial Statements

We have audited the financial statements of ABC Limited on pages to, which comprise the balance sheet as at December 31, 20X1, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of these financial statements in accordance with the Financial Reporting Order 1994 and 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand).¹⁰ Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's 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 the entity's internal control.¹¹ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

¹⁰ The auditor may also claim compliance with International Standards on Auditing.

¹¹ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances."

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, ABC Limited.

Opinion

In our opinion, the financial statements on pages toare prepared, in all material respects, in accordance with the Financial Reporting Order 1994.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by ABC Limited as far as appears from an examination of those records.

[Add any matters required to be included under any other legislation or regulation.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 4:

Circumstances include the following:

- **Audit of a complete set of financial statements required by law or regulation.**
- **The financial statements are prepared for a general purpose 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 responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the financial statements of ABC [entity] on pages to, 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 a summary of significant accounting policies and other explanatory information.

The Responsibility of [Those Charged with Governance]¹² for the Financial Statements

[Those charged with governance] are responsible for the preparation of these 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 are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand).¹³ Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's 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 the entity's internal control.¹⁴ An

¹² Use the term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹³ The auditor may also claim compliance with International Standards on Auditing.

¹⁴ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances."

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

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, ABC [entity].

Opinion

In our opinion, the financial statements of ABC [entity] on pages tofor the year ended December 31, 20X1 are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 5:

Circumstances include the following:

- **Audit of consolidated financial statements prepared for a reporting entity as defined by the Financial Reporting Act 1993.**
- **The terms of the group audit engagement reflect the description of the responsibility of those charged with governance for the financial statements in ISA (NZ) 210.**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Limited

Report on the Financial Statements¹⁵

We have audited the financial statements of ABC Limited and group on pages ... to ..., which comprise the consolidated and separate balance sheets of ABC Limited as at December 31, 20X1, the consolidated and separate income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors'*¹⁶ *Responsibility for the Financial Statements*

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand).¹⁷ Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate 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.¹⁸ An audit also includes evaluating the

¹⁵ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

¹⁶ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁷ The auditor may also claim compliance with International Standards on Auditing.

¹⁸ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as

appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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, ABC Limited or any of its subsidiaries.

Opinion

In our opinion, the financial statements on pages to:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of ABC Limited and the group as at December 31, 20X1, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations we have required.
- In our opinion proper accounting records have been kept by ABC Limited as far as appears from our examination of those records.

[Add any matters required to be included under any other legislation or regulation.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances."

Appendix 2

(Ref: Para. NZ 33.1)

Existence of any Other Relationship of the Auditor with the Entity

The Financial Reporting Act 1993 (sections 16 and 17) requires the audit report of a reporting entity or an exempt company to state the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity or any of its subsidiaries (in the case of a reporting entity).

Paragraph NZ 33.1 of this Standard requires the auditor of *all* entities to state in the audit 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 audit 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).

ACCOMPANYING ATTACHMENT: CONFORMITY TO THE INTERNATIONAL STANDARDS ON AUDITING

This conformity statement accompanies but is not part of ISA (NZ) 700.

Conformity with International Standards on Auditing

This International Standard on Auditing (New Zealand) (ISA (NZ)) conforms to International Standard on Auditing ISA 700 *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 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 700 and ASA 700:

- 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. NZ4.1]
- 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. 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 33.1]
- If the prescribed layout or wording do not meet the minimum requirements above, the auditor shall attach a separate report that conforms to the requirements of this ISA (NZ).¹⁹ [Ref. Para. NZ43.2]

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 the statutory responsibility for the preparation of the financial statements rests 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 700.

Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

ASA 700 conforms to ISA 700.

The following requirements are additional to ISA 700 and ISA (NZ) 700:

¹⁹ See ISA (NZ) 210, “Agreeing the Terms of Audit Engagements,” paragraphs 21 and NZ 21.1.

- When an entity, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards (IFRSs), and the auditor agrees with the entity's statement of compliance, the auditor shall state that in the auditor's opinion, the financial report complies with IFRSs. [Ref: Para. Aus 37.1]
- The auditor's report shall be dated as of the date the auditor signs that report. [Ref: Para. Aus 40.1]