



NZ AUDITING  
AND ASSURANCE  
STANDARDS BOARD

**EXPOSURE DRAFT NZAuASB 2016-2  
PROPOSED OMNIBUS STANDARD  
ANNUAL IMPROVEMENTS 2016**

**Invitation to Comment**

**September 2016**

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External Reporting Board  
PO Box 11250  
Manners St Central, Wellington 6142  
New Zealand  
<http://www.xrb.govt.nz>

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# Information for respondents

## Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)<sup>1</sup> is seeking comments on the specific matters raised in this Invitation to Comment (ITC). Responses to this ITC will be considered by the NZAuASB which will then make final decisions about the Omnibus Amendments.

Respondents are encouraged to supplement their opinions by detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Respondents should feel free to provide comments only for those questions that are relevant to their perspective if they so wish. Submissions should be sent to:

Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington 6142  
New Zealand  
Email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)

It would be appreciated if respondents would include a copy of their submission in electronic form (preferably Microsoft Word format) as that allows for the efficient collation and analysis of comments. Please include the title of the Exposure Draft (ED) in the subject line.

Respondents are asked to indicate in their submission on whose behalf the submission is being made (for example own behalf, a group of people, or an entity).

The closing date for submissions is 20 October 2016

## Publication of Submissions, the Official Information Act and the Privacy Act

Other than submissions that may be defamatory, the NZAuASB intends publishing all submissions on its website ([xrb.govt.nz](http://xrb.govt.nz)). The NZAuASB will not publish your submission on the internet if you have any objection to its publication. However, it will remain subject to the Official Information Act 1982 and may, therefore, be released in part or full. The Privacy Act 1993 also applies.

When making your submission, please state if you have any objections to the release of any information contained in your submission. If so, please identify which parts of your submission you are requesting to be withheld and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

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<sup>1</sup> The NZAuASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting auditing and assurance standards

## List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IAASB	International Auditing and Assurance Standard Board
ISA (NZ)	International Standard on Auditing (New Zealand)
ITC	Invitation to comment
PES	Professional and Ethical Standard
NZAuASB	New Zealand Auditing and Assurance Standards Board
NZ SRE	New Zealand Standard on Review Engagements

# 1. Introduction

## 1.1 Background

1. This ED proposes to amend various standards issued by the NZAuASB for minor editorial corrections and consistency with other standards. These amendments arise from local matters, rather than corrections to the international standards. The amendments proposed will result in closer alignment with international requirements and terminology and with other ISAs (NZ).

## 1.2 Reasons for issuing this exposure draft

2. This exposure draft proposes minor amendments to the ISAs (NZ) and other assurance standards to:
  - 2.1. Amend the illustrative report 3 in ISA (NZ) 700 (Revised)<sup>2</sup> to identify the jurisdiction of origin of the financial reporting framework
  - 2.2. Amend all illustrative reports in ISA (NZ) 700 (Revised), to clarify that directors are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern, consequentially on similar amendments made in 2015 to describe the responsibilities of those charged with governance.
  - 2.3. Align terminology consistently throughout the suite of standards as appropriate.

## 1.3 Timeline and next steps

3. Submissions on ED 2016-2 are due by 20 October 2016. Information on how to make submissions is provided on page 4 of this ITC.
4. The NZAuASB will consider the submissions received immediately after the consultation period ends.
5. The NZAuASB proposes the Omnibus Standard will be effective on 15 December 2016. Early adoption of this proposed Omnibus Standard will be permitted.

# 2. Overview of proposed amendments

6. The auditor is required to identify the jurisdiction of origin of the framework when 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 the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board<sup>3</sup>.
7. The Illustrative report 3 of ISA (NZ) 700 (Revised) refers to the financial reporting framework as "Public Benefit Entity Standards" but does not identify the jurisdiction of

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<sup>2</sup> ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*

<sup>3</sup> Paragraph 27 of ISA (NZ) 700 (Revised)

origin of those standards. Accordingly, the NZAuASB proposes to amend this illustrative report to identify the jurisdiction of origin.

8. Where the financial reporting framework does not contain the words New Zealand in its title, the auditor will need to bear in mind the requirement to identify the jurisdiction of origin of the financial reporting framework in the auditor's report.
9. Several minor amendments are also proposed to clarify, in the illustrative auditor's reports, that the directors are responsible on behalf of the entity for assessing the entity's ability to continue as a going concern and to align terminology consistently throughout the suite of standards issued by the NZAuASB.

## Questions for Respondents

The NZAuASB is interested in hearing from constituents as to whether they agree with the limited proposed amendments. Respondents are asked to consider the following specific questions and to respond to the NZAuASB by Thursday **20 October 2016**:

1. Do you agree with the NZAuASB's proposals to amend the standards as described in the exposure draft? If not, why not, and what alternative do you propose?
2. Do you agree with the proposed effective date? If not, why not, and what alternative do you propose?

**EXPOSURE DRAFT NZAUASB 2016-2  
PROPOSED OMNIBUS STANDARD ANNUAL IMPROVEMENTS 2016**

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## **A: INTRODUCTION**

This document sets out proposed amendments to various standards issued by the NZAuASB for minor editorial corrections and consistency with other standards. These amendments arise from local matters, rather than corrections to the international standards. The amendments proposed will result in closer alignment with international requirements and terminology and with other International Standards on Auditing (New Zealand).

Section B of this document sets out amendments to the International Standards on Auditing (New Zealand). Section B uses underlines and strike through to indicate proposed changes.

Section C of this document sets out amendments to New Zealand Standards on Review Engagements. Section C uses underlines and strike through to indicate proposed changes.

Section D of this document sets out amendments to Professional and Ethical Standards. Section D uses underlines and strike through to indicate proposed changes.

Note: The footnote numbers within these amendments do not align with the actual footnote numbers of the standards that will be amended, and reference should be made to those compiled standards.

## **B: AMENDMENTS TO INTERNATIONAL STANDARDS ON AUDITING (NEW ZEALAND) ISAs (NZ)**

### **B1 ISA (NZ) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)***

The definitions of management and those charged with governance in ISA (NZ) 200 are amended. The words “in some jurisdictions” are deleted from the definitions of management and those charged with governance to bring the definitions into line with the same terms defined in ISA (NZ) 260 *Communication with Those Charged with Governance* and PES 1 (Revised) *Code of Ethics for Assurance Practitioners*.

**New text is underlined and deleted text is struck through.**

7(h) Management - The person(s) with executive responsibility for the conduct of the entity’s operations. For some entities ~~in some jurisdictions~~, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

7(o) Those charged with governance - the person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities ~~in some jurisdictions~~, 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.

### **B2 ISA (NZ) 220 *Quality Control for an Audit of Financial Statements***

The definitions of engagement quality control review and engagement team in ISA (NZ) 220 are amended to be consistent with the respective definitions in ISA 220 *Quality Control for an Audit of Financial Statements*. The word “only” is deleted from the second sentence of the definition of engagement quality control review. The following sentence is added to the definition of engagement team: The term “engagement team” also excludes individuals who provide direct assistance on an audit engagement when the external auditor complies with ISA (NZ) 610 (Revised)

**New text is underlined and deleted text is struck through.**

7(b) Engagement quality control review – A process designed to provide an objective evaluation, on or before the date of the auditor’s report, of the significant judgements the engagement team made and the conclusions it reached in formulating the auditor’s report. The engagement quality

control review process is ~~only~~ for audits of financial statements of FMC reporting entities considered to have a higher level of public accountability and those other engagements, if any, for which the firm has determined an engagement quality control review is required.

7(d) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes external experts engaged by the firm or a network firm. The term “engagement team” also excludes individuals who provide direct assistance on an audit engagement when the external auditor complies with ISA (NZ) 610 (Revised).<sup>4</sup>

### **B3 ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements***

The following amendment applies to all Illustrative Auditor’s Reports in ISA (NZ) 700 Revised.

The second paragraph under the heading *Directors’ Responsibility for the Financial Statements* is amended to clarify that the directors are responsible *on behalf of the entity* for assessing the entity’s ability to continue as a going concern.

**New text is underlined and deleted text is struck through.**

#### *Directors’ Responsibility for the Financial Statements*

The directors are responsible on behalf of the entity for the preparation of the financial statements and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible on behalf of the entity for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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<sup>4</sup> ISA (NZ) 610 (Revised), *Using the Work of Internal Auditors*

The following amendment applies only to Illustration 3 of ISA (NZ) 700 (Revised)

The second paragraph under the heading *Opinion* in Illustration 3 is amended to incorporate the jurisdiction of origin of the framework, as required by paragraph 27 of ISA (NZ) 700 (Revised).

**New text is underlined and deleted text is struck through.**

**[NZ] Illustration 3 – Auditor’s Report on Financial Statements of a Public Benefit Entity that is not a FMC Reporting Entity Considered to have a Higher Level of Public Accountability Prepared in Accordance with a Fair Presentation Framework (for example, Public Benefit Entity Standards)**

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a public benefit entity that is not a FMC reporting entity considered to have a higher level of public accountability using a fair presentation framework. The audit is not a group audit (i.e., ISA (NZ) 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with Public Benefit Entity Standards<sup>5</sup> (a general purpose framework).
- The terms of the audit engagement reflect the description of the responsibilities of those charged with governance for the financial statements in ISA (NZ) 210.
- The auditor has concluded an unmodified (i.e. “clean”) opinion is appropriate based on the audit evidence obtained.
- Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* comprises all of the relevant ethical requirement that apply to the audit.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA (NZ) 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA (NZ) 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.

<sup>5</sup> The use of Public Benefit Entity Standards is used for the purposes of illustration. The appropriate financial reporting standards to be applied by an entity will be determined by the tier structure established in XRB A1 *Application of the Accounting Standards Framework*. The Auditor’s Report would identify one of the following:

- New Zealand equivalents to International Financial Reporting Standards. (This may also include compliance with International Financial Reporting Standards)
- New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime
- Public Benefit Entity Standards
- Public Benefit Entity Standards Reduced Disclosure Regime
- Public Benefit Entity Simple Format Reporting – Accrual (Public Sector)
- Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit).

- The auditor has no other reporting responsibilities required under local law.
- The auditor elects to refer to the description of the auditor’s responsibility included on the website of the XRB.

## **INDEPENDENT AUDITOR’S REPORT**

To Appropriate Addressee

### **Opinion**

We have audited the financial statements of ABC [entity], which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive revenue and expense, statement of changes in net assets/equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the [entity] as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Public Benefit Entity Standards issued by the New Zealand Accounting Standards Board.

### **Basis for Opinion**

...

*[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate]*

*[Auditor Address]*

*[Date]*

## C: AMENDMENTS TO NEW ZEALAND STANDARDS ON REVIEW ENGAGEMENTS (NZ SRE)

### C1 NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*

The definitions of “financial statements” and “applicable financial reporting framework” in NZ SRE 2410 are amended to be consistent with the definitions of “financial statements” and “applicable financial reporting framework” as defined in ISA (NZ) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*.

**New text is underlined and deleted text is struck through.**

6(b) Financial statements means a structured presentation of historical financial information, including ~~related notes~~ disclosures, intended to communicate an entity’s economic resources or obligations at a point in time, or the changes therein for a period of time in accordance with a financial reporting framework. ~~The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.~~ The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.

6(c) An applicable financial reporting framework means the financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

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

- (a) 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
- (b) 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 (a) or (b) above.

## D: AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARDS

### D1 PES 1 (Revised) *Code of Ethics for Assurance Practitioners*

The definitions of “assurance engagement” and “review engagement” in PES 1 (Revised) are amended to remove references to Review Standard 1 (RS 1) because RS 1 has been withdrawn by the NZAuASB. In addition, a reference to Standards on Assurance Engagements (SAEs) has been added to the definition of “assurance engagement.”

**New text is underlined and deleted text is struck through.**

#### DEFINITIONS

In this *Code of Ethics for Assurance Practitioners* the following expressions have the following meanings assigned to them:

##### Assurance engagement

An engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

(For guidance on assurance engagements see Explanatory Guide Au1 *Overview of Auditing and Assurance Standards* which describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Auditing (New Zealand) (ISAs (NZ)), ~~Review Standard 1 (RS 1)~~, International Standard on Review Engagements (New Zealand) (ISRE (NZ)), New Zealand Standard on Review Engagements (NZ SRE), International Standards on Assurance Engagements (New Zealand) (ISAEs (NZ)), and Standards on Assurance Engagements (SAEs), apply.)

##### Review Engagement

An assurance engagement, conducted in accordance with ~~Review Standard 1 (RS 1)~~, International Standard on Review Engagements (New Zealand) 2400 or New Zealand Standard on Review Engagements 2410, in which an assurance practitioner expresses a conclusion on whether, on the basis of the procedures which do not provide all the evidence that would be required in an audit, anything has come to the assurance practitioner’s attention that causes the assurance practitioner to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

## **D2 PES 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements***

The definition of “assurance engagement” in PES 3 (Amended) is amended to be consistent with the definition of “assurance engagement” in ISAE (NZ) 3000 (Revised).

**New text is underlined and deleted text is struck through.**

[NZ12.1] *Assurance engagement* – An engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in order to expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the ~~evaluation or~~ measurement or evaluation of an underlying a subject matter against criteria).

### **E: EFFECTIVE DATE**

The proposed amendments will be effective on 15 December 2016; early adoption is permitted.