

EXPOSURE DRAFT NZAuASB 2019-1

AMENDMENTS TO NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 2410 *REVIEW OF FINANCIAL STATEMENTS PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY*

(ED NZAuASB 2019-1)

Invitation to Comment

July 2019

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Information for respondents

Invitation to comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. Responses to this Invitation to Comment will be considered by the NZAuASB which will then make final decisions about New Zealand Standard on Review Engagements 2410.

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

(please include the title of the Exposure Draft in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submission is 14 October 2019.

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

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

We intend publishing all submissions on the XRB website (xrb.govt.nz), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the ground 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).

List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

AUASB	Australian Auditing and Assurance Standards Board
ED	Exposure Draft
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
ISA	International Standard on Auditing
ISA (NZ)	International Standard on Auditing (New Zealand)
ISRE	International Standard on Review Engagements
ITC	Invitation to Comment
KAM	Key audit matters
NOCLAR	Non-compliance with laws and regulations
NZAuASB	New Zealand Auditing and Assurance Standards Board
NZ IAS	New Zealand Equivalent to International Accounting Standard
NZ SRE	New Zealand Standard on Review Engagements
PES	Professional and Ethical Standard
XRB	External Reporting Board

Summary of questions for respondents

1. Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?
2. More specifically, do you agree with the proposals to require the auditor to:
 - a. Move the review conclusion to the top of the interim review report?
 - b. Include the independence statement in the interim review report?
 - c. To include the engagement partner's name?
 - d. To refer to a "Material Uncertainty Related to Going Concern" rather than an Emphasis of Matter paragraph, when appropriate?
3. Questions specific to going concern
 - 3.1 Do you agree that the requirement in paragraph 20 of the exposure draft should not make it explicit that the auditor is required to conclude on going concern and that this is implicit in the exposure draft as a whole?
 - 3.2 Do you agree that the review report should include a description of the responsibilities of both management and the auditor in respect of going concern? If not, why not?
 - 3.3 Do you agree with the NZAuASB's preferred option (in paragraph 28) to describe the auditor's responsibilities related to going concern? If not, why not?
4. Do you agree that it is not appropriate to include a section on Other Information in the interim review report? If you disagree, please explain why?
5. Do you agree that it is unnecessary to refer to a website when describing the auditor's responsibilities given that this description is more condensed for a review?
6. Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?
7. Do you agree with the proposed amendments to align with the new ethical framework when encountering non-compliance with laws and regulations, including a reference to guidance in ISA (NZ) 250 rather than including detailed requirements and application material within NZ SRE 2410?
8. Do you consider that there are any further amendments required to be made to NZ SRE 2410? If so, please expand on what changes and why such changes are considered necessary?
9. Do you agree with the proposed effective date? If not, please explain why not.

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment is to seek feedback on the proposed amendments to NZ SRE 2410.

1.2 Background

2. The XRB has delegated authority to the NZAuASB to issue auditing and assurance standards to govern the professional conduct of assurance practitioners. In doing so, the XRB requires the NZAuASB to adopt international auditing and assurance standards, unless there is a compelling reason not to do so. A second key strategic objective of the XRB is harmonisation with Australia.
3. The IAASB has issued ISRE 2410 but has not amended it since 2006 and it is not in the clarified format. An update to ISRE 2410 is not on the IAASB's work plan. It was for this reason that the NZAuASB agreed to issue a domestic standard to address interim reviews conducted by the auditor of the entity. The NZAuASB based NZ SRE 2410 on an equivalent Australian standard, which is in the clarified format, rather than the older version issued by the IAASB. Further explanations for the decision to issue a domestic standard are outlined in the Explanations for Decisions made by the NZAuASB in Finalising NZ SRE 2410.
4. Given that the IAASB has not prioritised the maintenance of the international standard, the NZAuASB and the AUASB have agreed to work together to maintain the domestic standard that deals with a review engagement performed by the auditor.

1.3 Reasons for issuing this Exposure Draft

5. From December 2016, the auditor's report was changed as a result of the IAASB's project to enhance the auditor's report from the user's perspective. These changes were limited to the ISAs.
6. Subsequently, questions have arisen, both in New Zealand and Australia, as to whether and how the new auditor reporting requirements impact the format and content of the interim review report in accordance with NZ SRE 2410, or the Australian equivalent.
7. Currently, while NZ SRE 2410 has not been updated, auditors can, but are not required to, use the new reporting format and new features when issuing a review report provided any reporting is not inconsistent with NZ SRE 2410. There was a view expressed by the Board that it would be preferable to promote consistency in practice. Based on indicative and early feedback from informal discussions with targeted stakeholders the NZAuASB agreed to develop an exposure draft to incorporate these updates into NZ SRE 2410 to promote consistency in reporting.

8. In addition, the NZAuASB identified a need to include conforming amendments as a result of the new ethical framework related to non-compliance with laws and regulations (NOCLAR).
9. The NZAuASB is not proposing to reopen or fundamentally revise NZ SRE 2410, rather to make conforming amendments to the standard as a result of recent changes to the ISAs (NZ) and PES 1 (Revised).

1.4 Timeline and next steps

10. Submissions on ED 2019-1 are due by 14 October 2019. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
11. The NZAuASB will consider the submissions received immediately after the consultation period ends. Subject to the content of feedback, the NZAuASB hopes to finalise any amendments to NZ SRE 2410 by the end of 2019.

2. Overview of ED NZ 2019-1

12. Key changes made to the auditor's report by the IAASB's auditor reporting project include, but were not limited to, the reporting of key audit matters (KAMs). Other changes made included:
 - Re-ordering the report so that the opinion comes first, followed by a "Basis for Opinion" section;
 - Naming the engagement partner in the report;
 - An affirmative statement about the auditor's independence and fulfilment of relevant ethical requirements;
 - A description of the respective responsibilities of those charged with governance and the auditor for going concern;
 - Referring to a material uncertainty related to going concern as an "emphasis of matter" or under the heading "Material uncertainty related to going concern";
 - An "Other Information" section to clarify that the auditor's opinion does not cover the other information included in an annual report;
 - An enhanced and expanded auditor's responsibility section describing the key features of an audit. There is also an option to refer to the XRB website instead of repeating these responsibilities in all reports;

A key reason for making these changes to the auditor's report was to enhance the value of the auditor's report to better meet user needs.

2.1 Key Differences Between the Exposure Draft and Extant NZ SRE 2410

2.1.1 Reporting Requirements

13. The exposure draft is proposing to include the enhanced features of the revised auditor's report that are deemed relevant for an interim review report, into NZ SRE 2410. However, not all of the revised auditor reporting requirements have been determined to be appropriate for a review engagement.

Interim Review Reporting requirements to align with the auditor's report

14. The NZAuASB is proposing to include the following requirements in NZ SRE 2410:
- Re-ordering the report so that the conclusion comes first, followed by a "Basis for Conclusion" section;
 - Naming the engagement partner in the interim review report;
 - An affirmative statement about the auditor's independence and fulfilment of relevant ethical requirements;
 - Referring to a material uncertainty related to going concern as an "emphasis of matter" or under the heading "Material uncertainty related to going concern";
 - A description of the respective responsibilities of those charged with governance and the auditor for going concern.
15. The NZAuASB has not identified that any of these proposals will be overly onerous to apply in the New Zealand context.
16. The NZAuASB has heard favourable feedback from users, that including the Opinion first is an improvement to the auditor's report. Given that this is also the most useful information to the user of the interim review report, it would enhance the value of, and consistency of the user experience, if the review conclusion (and the structure of the report) followed the same basic order. For this reason, the ED proposes to mandate the order of the review report, so that the conclusion comes first, followed by the "Basis for Conclusion".
17. In Australia, it is required by law for the engagement partner to include their name on both the auditor's report and the interim review report (this was required before the auditor reporting changes), i.e. it is consistent practice for the engagement partner's name to appear in both the year end and interim review reports. This is not required in New Zealand.
18. Naming the engagement partner was identified as useful for the user. Reporting the engagement partner name at year end, but not including the name at the interim period may be misleading. If the engagement partner

has changed since the year end audit, it could mislead the user to believe that the same engagement partner has performed the interim review. As noted above this is inconsistent with practice in Australia. For this reason, the ED proposes to require the name of the engagement partner to be included in the interim review report. This is common practice in the public sector in New Zealand.

19. The auditor is subject to the same independence and ethical requirements when performing the interim review. Independence is most likely just as important to the user at the interim review stage. The ED therefore proposes to make this explicit statement in the review report.
20. Changes to ISA (NZ) 570 (Revised)² require a new heading to be used when the auditor concludes that there is a material uncertainty and adequate disclosures have been made about a material uncertainty in the financial statements. Historically this was reported under the heading "Emphasis of Matter". NZ SRE 2410³ refers to an emphasis of matter paragraph in these circumstances. The NZAuASB considered that there is a need to promote consistency in this reporting. Not to do so may result in inadvertent non-compliance with extant NZ SRE 2410.

Going concern

21. The requirements in NZ IAS 1⁴ related to making an assessment of the ability of an entity to continue as a going concern apply when preparing interim financial statements. Similarly, the auditor is required by extant NZ SRE 2410⁵ to perform review procedures related to the use of the going concern basis of accounting.
22. Under the revised auditor reporting requirements, given the importance of the use of the going concern basis of accounting, the auditor's report is more transparent around both management's responsibilities and the responsibilities of auditors specifically related to going concern.
23. The NZAuASB considered whether to require a description of the responsibilities related to going concern in the interim review report. The option to remain silent about these responsibilities was rejected by the NZAuASB, given the importance of the underlying going concern basis of accounting, especially in the current environment. The NZAuASB prefers to include a description of these responsibilities to reduce the risk of an

² ISA (NZ) 570 (Revised), Going Concern, paragraph 22

³ NZ SRE 2410, paragraph 41

⁴ NZ IAS 1, *Presentation of Financial Statements*, paragraph 4 and 25

⁵ NZ SRE 2410, paragraph 20

expectation gap, in order to enhance transparency and the information value of the interim review report.

24. The NZAuASB is proposing to include the same description of management's responsibilities in the interim review report as the description included in the annual auditor's report.
25. The description of the auditor's responsibilities related to going concern in the annual auditor's report include:
 - To conclude on the appropriateness of the use of the going concern assumption; and
 - To communicate the reporting implications if the auditor concludes that a material uncertainty exists.
26. Extant NZ SRE 2410 is not explicit that the auditor shall conclude on the appropriateness of the use of the going concern basis of accounting. The NZAuASB considers that the required procedures in NZ SRE 2410 adequately captures what the auditor is expected to do at an interim review so there is no urgent need to update this requirement which may be viewed as beyond the scope of the project. Rather, it is implicit within the exposure draft that the procedures are performed in order to form a conclusion. This is implicit in that the auditor has to conclude as to whether anything has come to their attention that causes them to believe that the financial statements have not been prepared, in all material respects, with the applicable financial reporting framework. It explicitly requires the auditor to make enquiries about the entity's ability to continue as a going concern and perform additional review procedures⁶. It also requires inclusion of a material uncertainty paragraph where the auditor concludes that a material uncertainty exists⁷.
27. The NZAuASB is seeking feedback on the best way to describe the auditor's responsibilities in relation to going concern in the interim review report. It has explored two possible options to describe these responsibilities. The options below illustrate how these two options would look within the review report under the heading *Auditor's responsibilities*:

Option 1 (the preferred option included in the exposure draft)

28. In this option, the description from the auditor's report has been amended to describe both elements covered by ISA (NZ) 700 (Revised), noting that the conclusion has been amended appropriately for a review engagement:

"Based on the review procedures performed, we conclude on whether anything has come to our attention that causes us to believe that the use of

⁶ Refer to paragraph 20 of the exposure draft.

⁷ Refer to paragraph 52 and 53 of the exposure draft.

the going concern basis of accounting by [those charged with governance] is not appropriate and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If a matter comes to our attention that causes us to believe that a material uncertainty related to going concern exists, we are required to draw attention in our review report to the related disclosures in the [period] financial statements or, if such disclosures are inadequate, to modify our conclusion. However, future events or conditions may cause the entity to cease to continue as a going concern."

29. This is the NZAuASB's preferred option proposed to be included in NZ SRE 2410. This option recognises that the auditor is performing the procedures in order to conclude whether anything has come to their attention. This option tailors the approach adopted in the auditor's report on the annual financial statements to appropriately reflect the limited assurance engagement performed, to clearly distinguish this from the audit and to communicate the reporting implications if the auditor concludes that a material uncertainty exists as required by ED NZ SRE 2410.

Option 2

30. While the NZAuASB considers the first option appropriate, in this option, the review report repeats the procedures (required in paragraph 20 of the ED) the auditor is required to perform within the review report, noting that future events or conditions may cause the entity to cease to continue as a going concern:

"We make enquiries about whether management have changed their assessment of the entity's ability to continue as a going concern. When, as a result of this enquiry or other review procedures, the auditor becomes aware of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall enquire of management as to their plans for future actions based on their going concern assessment, the feasibility of these plans, and whether they believe that the outcome of these plans will improve the situation. We consider the adequacy of the disclosures about such matters in the financial statements."⁸

31. It is in the public interest for users of financial statements to have a clear understanding of the limited assurance obtained in the interim review engagement. The NZAuASB considers the review report already describes the limited nature of the procedures performed in a review engagement. Repeating the specified procedures on going concern in the interim review report may introduce the potential for misunderstanding and may inadvertently increase the expectation gap in New Zealand. If the report does not go on to explain why the auditor is performing these procedures or

⁸ Note this option is included in the proposals issued by the AUASB.

what they found it may be unlikely to satisfy investor perceptions around the auditor's responsibilities. References to "other review procedures" may in fact increase the risk that such reporting could be misinterpreted.

32. The NZAuASB is interested in your view as to which option better meets users' needs and is less likely to introduce the potential for misunderstanding of the limited assurance obtained in the interim review engagement.

Auditor Reporting requirements that have not been included

33. The NZAuASB is not proposing to incorporate the following features:
- Reporting of key audit matters or key review matters;
 - An "Other Information" section to clarify that the auditor's opinion does not cover the other information included in an annual report;
 - An enhanced and expanded auditor's responsibility section describing the key features of a review. There is also an option to refer to the XRB website instead of repeating these responsibilities in all reports.
34. The NZAuASB is not proposing to require the reporting of key audit matters in the interim review report because it was not considered appropriate given the limited nature of procedures performed when performing a review engagement.
35. The NZAuASB is not proposing to include a section on "Other Information" for interim review engagements. There is less "other information" reported at the interim stage and therefore there is no need to place additional reporting requirements on the auditor at the interim stage. This may be re-considered after a post implementation review of the reporting requirements has been completed by the IAASB.
36. The description of the auditor's responsibilities when performing the review is more condensed than for an audit, as the procedures performed are substantially less than for a review. Given the condensed nature of the description, it is not necessary to provide the option to refer to a website.

Question for respondents

1. Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?
2. More specifically, do you agree with the proposals to require the auditor to:
- a. Move the review conclusion to the top of the interim review report?
 - b. Include the independence statement in the interim review report?
 - c. To include the engagement partners name?

d. To refer to a “Material Uncertainty Related to Going Concern” rather than an Emphasis of Matter paragraph, when appropriate?

Question 3 (specific to going concern)

3.1 Do you agree that the requirement in paragraph 20 of the exposure draft should not make it explicit that the auditor is required to conclude on going concern and that this is implicit in the exposure draft as a whole?

3.2 Do you agree that the review report should include a description of the responsibilities of both management and the auditor in respect of going concern? If not, why not?

3.3 Do you agree with the NZAuASB’s preferred option to describe the auditor’s responsibilities related to going concern? If not, why not?

4. Do you agree that it is not appropriate to include a section on Other Information in the interim review report? If you disagree, please explain why?

5. Do you agree that it is unnecessary to refer to a website when describing the auditor’s responsibilities given that this description is more condensed for a review?

6. Do you agree that reporting of Key Review Matters at the interim stage is not appropriate?

2.1.2 Non-Compliance with Laws and Regulations (NOCLAR)

37. Amendments to PES 1 (Revised) *Non-compliance with Laws and Regulations* was issued in August 2016 to align with changes made by the IESBA to the *Code of Ethics for Professional Accountants*. The IAASB revised ISA 250⁹ and issued conforming amendments to a number of other pronouncements, including ISRE 2400 (Revised)¹⁰. However, no changes were made to ISRE 2410. The conforming amendments made by the IAASB, responded to new requirements in the IESBA Code of Ethics to enable the IAASB’s standards to be effectively applied alongside the IESBA Code.

38. This ED is proposing to make limited amendments to NZ SRE 2410 to align with the new terminology of identified and suspected NOCLAR, and amend the communication requirements to prompt the auditor to think about whether to report identified or suspected NOCLAR to an appropriate authority outside the entity, taking into consideration the provisions of laws,

⁹ ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

¹⁰ ISRE 2400 (Revised), *Review of Historical Financial Statements Performed by an Assurance Practitioner*

regulations or relevant ethical requirements. Limited changes are proposed to the application material, which refers the auditor to the ISA (NZ) 250 (Revised).

Question for respondents

7. Do you agree with the proposed amendments to align with the new ethical framework when encountering non-compliance with laws and regulations, including a reference to guidance in ISA (NZ) 250 rather than including detailed requirements and application material within NZ SRE 2410?

2.1.3 Other changes

39. The extent of the proposed amendments are limited in nature, restricted to changes to the auditor reporting requirements and conforming amendments to NOCLAR.
40. Minor changes are proposed to revise the title of the standards, to reflect changes to the restructured Code and other recent developments in the ISAs.

Question for respondents

8. Do you consider that there are any further amendments required to be made to NZ SRE 2410? If so, please expand on what changes and why such changes are considered necessary?

2.2 Effective Date

41. The NZAuASB proposes that the effective date of the proposals should be effective for reviews of financial statements for periods beginning on or after 1 January 2020, with early adoption permitted. The NZAuASB does not consider that a lengthy transition period is required, given that the extent of change is limited in nature.

Question for respondents

9. Do you agree with the proposed effective date? If not, please explain why not.