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Dear Warren

Submission on ED NZAuASB 2019-1 Amendments to New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*

CPA Australia represents the diverse interests of more than 164,000 members working in 150 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

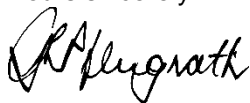
CPA Australia supports the revision of NZ SRE 2410 in the absence of any project at the International Auditing and Assurance Standards Board to revise ISRS 2410. In particular, we support the scope of the revisions to reflect the current auditor's report format and content, and the outcomes of the IAASB's project regarding non-compliance with laws and regulation (NOCLAR). We consider that it will be helpful to both auditors and users of financial statements for the language, scope and format of any interim review report prepared by the auditor of the entity to be consistent with the auditor's report issued at financial year end.

However, to this end, we suggest that the alignment of the review report wording in revised NZ SRE 2410 could be much closer to the audit report wording in ISA (NZ) 700, particularly with respect to the nature and breadth of the procedures covered as part of the auditor's responsibilities. The responsibilities, included in the auditor's report in revised NZ SRE 2410, focus on procedures related to going concern but omit references to other core procedures. Consequently, the report is arguably unbalanced by not reflecting the range of key responsibilities of the auditor when conducting a review engagement. In addition, we consider that the applicable requirements in Professional and Ethical Standard (PES) 1 (revised) with respect to NOCLAR, for reviews conducted by the auditor, need to be better reflected in NZ SRE 2410.

Our responses to the specific questions included in ED NZAuASB 2019-1 are provided in the attachment.

If you require further information on the views expressed in this submission, please contact Claire Grayston, Policy Adviser – Audit and Assurance, on +61 3 9606 5183 or at claire.grayston@cpaaustralia.com.au.

Yours sincerely



Dr Gary Pflugrath
Head of Policy and Advocacy

ATTACHMENT

1. **Do you agree with the proposals to incorporate the reporting amendments made to the annual audit report consistently into the interim review report?**

Yes, we are supportive of incorporating the amendments made to the annual audit report into the interim review report to provide consistency between the two reports.

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?**

Yes

- b. **Include the independence statement in the interim review report?**

Yes, although we suggest that it would be preferable for the NZ and Australian wording to be aligned in the interim review report. We note that an additional statement is required in NZ ED SRE 2410 “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 or any of its subsidiaries”.

- c. **To include the engagement partner’s name?**

Yes, when the reporting entity is an FMC reporting entity with higher public accountability.

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

Yes

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?**

We consider that paragraph 20, which requires the auditor to “enquire whether those charged with governance have changed their assessment of the entity’s ability to continue as a going concern”, could be more clearly expressed. We suggest the procedures could instead require the auditor to enquire about the basis for those charged with governance’s assessment of the entity’s ability to continue as a going concern. Importantly, if it is intention of the standard that the auditor is required to conclude on going concern, then we suggest it is insufficient for that requirement to be implicit. Rather requirements should be clear in order to support consistent interpretation and application.

- 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?**

We are supportive of including the respective responsibilities regarding going concern. However, by including only those responsibilities and ignoring other key responsibilities, an imbalance may be created in the matters reported; potentially over-emphasising the responsibilities in relation to going concern.

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?

We consider that option 1 wording explains the work effort more clearly than option 2 and clarifies the period considered and the risk that conditions may change in the future, as well as aligning more closely to ISA (NZ) 700 (revised) report wording. Option 2 wording only reflects the procedures in paragraph 20, but fails to encapsulate the response to the outcome of those procedures in paragraphs 49-51. Nevertheless, we note that practitioners are concerned that the option 1 wording may imply a greater level of work effort than is appropriate for a review engagement, by requiring a conclusion on going concern. It is also important for reporting entities which operate in both Australia and New Zealand for the requirements for reporting to be as consistent as possible. Therefore we encourage the NZAuASB and the AUASB to align wording of their respective review reports. This may necessitate alternative wording to be developed which does not reflect option 1 or 2.

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?

As interim financial statements will typically be published in conjunction with other information, such as the directors' report, we suggest that it would aid transparency to include a section on other information, when applicable, to clarify what the auditor did in relation to that other information.

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?

Whether there is a need to allow for reference to a website for the auditor's responsibilities will depend on how lengthy the responsibilities become. The description, in the exposure draft, of the auditor's responsibilities when performing a review is more condensed than for an audit, because not all of the responsibilities have been included. It is not because the procedures performed for a review are substantially less than an audit.

Whilst the responsibilities of the auditor and management required to be included in the review report have been expanded relative to the extant standard in paragraph 37(d) and in the illustrative reports, we note that those responsibilities do not encompass all of the key matters for which the auditor is responsible. Whilst it would be preferable that the interim review report not become too lengthy, the procedures are somewhat imbalanced and so potentially over-emphasise the procedures conducted in relation to going concern.

We consider that the auditor's responsibilities described in the review report could be more closely aligned with those detailed in the auditor's report under iSA (NZ) 700. For example, in addition to "making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures" (which addresses the procedures in para. 17), we suggest that other key procedures in NZ SRE 2410 that could be described in the review report are:

- Understanding of the entity and its environment, including its internal control, sufficient to plan and conduct the engagement so as to be able to identify the types of potential material misstatements and consider the likelihood of their occurrence, and select the enquiries, analytical and other review procedures that will provide the auditor with a basis for their review conclusion. (para. 14)

- Consideration of materiality, using professional judgement, when determining the nature, timing and extent of review procedures, and evaluating the effect of misstatements. (para. 16)
- Obtaining evidence that the financial statements agree or reconcile with the underlying accounting records. (para. 18)
- When a matter comes to the auditor’s attention that leads the auditor to question whether a material adjustment should be made for the financial statements to be prepared, in all material respects, in accordance with the applicable financial reporting framework, making additional enquiries or performing other procedures to enable the auditor to express a conclusion in the auditor’s review report. (para. 21)

This list may not be complete and would need further consideration in order to appropriately summarise the responsibilities reflected in NZ SRE 2410. By including all of the auditor’s key responsibilities in conducting a review in the review report, it puts the going concern procedures into context. If more extensive auditor’s responsibilities are included then the option, to reference to the NZAuASB website rather than state the responsibilities in full, is more likely to be needed by auditors.

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

We agree it is not appropriate to report such matters in the interim report, but this can be reconsidered in the future.

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??

Yes, we support amendments to reflect the requirements relating to non-compliance with laws and regulations (NOCLAR) so that auditors are clear on their responsibilities with respect to following up on instances of, or suspected, NOCLAR when conducting reviews. However, we consider that the applicable requirements of the PES 1 (revised), with respect to NOCLAR, need to be more fully addressed in the revised standard.

Whilst additional requirements for NOCLAR are included in paragraph 31 of the ED, we consider that the following amendments are also needed:

- a) Inclusion of the following requirements under the heading “Enquiries, Analytical and Other Review Procedures”:
 - (i.) the auditor to enquire about whether the entity is aware of any NOCLAR (See ISA (NZ) 250 (revised) paragraph 15), and
 - (ii.) if the auditor becomes aware of an instance of, or suspects, NOCLAR, to obtain an understanding of the nature of the act and the circumstances in which it has occurred, as well as further information to evaluate the possible effect on the financial statements (See ISA (NZ) 250 (revised) paragraph 19).
- b) Amendment of paragraph 31 to better reflect the communications the auditor would need to undertake under PES 1. In particular, rather than requesting “management’s assessment of the effect on the financial statements” (subparagraph 31(b)), we consider there should be a

requirement to address the circumstance where management or those charged with governance (TCWG) may be involved in the NOCLAR and consider the need for the auditor to obtain legal advice. (See ISA (NZ) 250 (revised), paragraphs 25).

We support reference to (NZ) 250 (revised) as a source of guidance.

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?

We recommend that:

- “auditor of the entity” is defined to clarify that it means the auditor of the entity’s annual financial statements.
- reference is made to ISA (NZ) 570 as guidance when reviewing management’s assessment of the entity’s ability to continue as a going concern and determining the adequacy of disclosure of a material uncertainty in relation to going concern.

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

Whilst an effective date of periods commencing on or after 1 January 2020 provides a very short implementation period, we consider that the amendments do not change the fundamental work effort from that which currently should be undertaken. It largely impacts the report format and content, which should not present much difficulty to implement. The revisions also reflect other existing requirements, such as those in relation to NOCLAR, which need to be brought to the auditor’s attention. Consequently, unless there is a significant delay in publishing the final standard, we agree with the effective date as drafted.