

14 October 2019

Warren Allen  
External Reporting Board  
PO Box 11250  
Manners Street Central  
Wellington 6142

Via email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)

Dear Warren

### **Submission on Amendments to New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity**

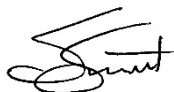
We welcome the opportunity to provide feedback on Exposure Draft NZAuASB 2019-01 *Amendments to New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity* ("the ED"). Appendix A provides our responses to the specific questions raised in the ED. Appendix B provides information about Chartered Accountants Australia and New Zealand (CA ANZ).

We support aligning the format and content of the auditor's interim review report with the enhanced annual auditor's report to promote consistency. We commend the NZAuASB and the AUASB for working collaboratively on this project. Against this backdrop of support, we strongly encourage the two boards to reach agreement on how to describe the auditor's responsibility in relation to going concern. In our view, the compelling reason test in the [XRB Trans-Tasman harmonisation principles](#) for differences to exist is not met. It is important that the description is aligned, especially for our members who are auditors of listed entities in both New Zealand and Australia. We believe having two differing descriptions is not in the public interest.

The fact that the two boards have proposed different wording on how to describe the auditor's responsibility in relation to going concern in the review report, when the two standards are the same, may be indicative that the standard is deficient in this area and could benefit from additional clarity. However, we appreciate this is outside the intended scope of this project, and it would mean making such amendments ahead of the IAASB. But we note that ISRE 2410 is not currently on the IAASB's workplan, so this issue is unlikely to be directly addressed in the short term. Although it may be peripheral to the IAASB's auditor reporting post-implementation review and/or its ongoing considerations of going concern issues.

We would be pleased to provide further information or assist in any way that may be helpful as you continue work on this important project. If you have any questions about our submission, please contact [Gerrie Burger](#), Senior Policy Advocate.

Yours sincerely



**Simon Grant FCA**  
Group Executive, Advocacy and Professional  
Standing



**Amir Ghandar CA**  
Leader, Reporting and Assurance

# Appendix A

## Responses to specific questions

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

We agree with the scope and key proposals. Since the auditor's report was enhanced, there has been divergence in practice in relation to the format and content of interim review reports. While consistency was encouraged, we would prefer it to be mandated within a standard.

- ### 2. More specifically, do you agree with the proposals to require the auditor to:
- Move the review conclusion to the top of the interim review report?
  - Include the independence statement in the interim review report?
  - To include the engagement partner's name?
  - To refer to a "Material Uncertainty Related to Going Concern" rather than an Emphasis of Matter paragraph, when appropriate?

We agree with the proposals.

### 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?

There is no requirement in the standard for an explicit conclusion on the appropriateness of the use of the going concern basis of accounting in the review report itself. However, the appropriateness of the use of the going concern basis of accounting, the existence of a material uncertainty and whether or not this is adequately disclosed in the financial report, impacts on the type of conclusion the auditor expresses (paragraphs 49-51 of the ED). This therefore implies the auditor must be required to evaluate these aspects and form a view in order to issue the review report.

Given the importance of the underlying going concern assumption, we would expect there to be a separate section in the body of the standard that explicitly addresses the auditor's responsibility in relation to going concern. In contrast, there is a separate section for the "Auditor's Responsibility for Other Information" (paragraphs 26-27 of the ED), but the review report is silent about this. In our view, it is this gap in NZ SRE 2410 that has resulted in the NZAuASB and the AUASB arriving at different interpretations; ideally this gap should be addressed in the first instance. The lack of clarity in this regard may pose a risk in terms of legal implications.

Paragraph 17 of the ED requires the auditor to conduct various procedures "to enable the auditor to conclude whether, on the basis of the procedures performed, anything has come to the auditor's attention that causes the auditor to believe that the financial report is not prepared, in all material respects, in accordance with the applicable financial reporting framework." Most entities undergoing an interim review would have the going concern assumption as an integral part of their accounting framework (eg paragraph 3.9 of the [2018 NZ Conceptual Framework](#)).

In a review engagement by an assurance practitioner who is not the auditor of the entity, when the assurance practitioner becomes aware of events or conditions that may cast significant doubt about the

entity's ability to continue as a going concern, the assurance practitioner is required to "conclude whether the financial statements are materially misstated, or are otherwise misleading regarding the entity's ability to continue as a going concern" (paragraph 53, [ISRE \(NZ\) 2400](#)). We believe it would be reasonable for users to expect the same work effort around going concern for an interim review conducted by the auditor.

**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 agree, for the reasons set out in paragraph 23 of the ITC.

**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 do not agree with the first sentence of the NZAuASB's preferred option (option 1), but we do agree with the remainder. We believe option 1 more closely reflects the auditor's responsibility in relation to going concern. We do not agree with how the auditor's responsibility in relation to going concern has been described in option 2 (in paragraph 30 of the ITC). Our reasons for this are as follows:

- We question if procedures are analogous to responsibilities. We believe responsibilities are at a higher level and broader than procedures.
- If taking a 'procedural requirement' approach, in our view just replicating paragraph 20 of the ED does not provide a complete list of requirements in relation to going concern.
- Listing specific procedures may be inferred as long-form reporting which may cause confusion.
- The absence of what the auditor is required to do if the outcome of said procedures indicates going concern issues leaves users to draw their own conclusions.

In addition, we encourage the board to consider if there is value in clarifying in the review report:

- What the auditor does *not* conclude on regarding going concern (eg confirming the future viability of the entity);
- That going concern remains an assumption by management about the foreseeable future and that assurance cannot be placed on future events; and
- That the going concern assumption is an area of significant judgement by both management and auditor.

**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?**

We agree, for the reasons set out in paragraph 35 of the ITC.

**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?**

We agree, for the reasons set out in paragraph 36 of the ITC.

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

We agree, for the reasons set out in paragraph 34 of the ITC.

**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?**

We agree with the proposed amendments.

**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?**

*Trans-Tasman agreement on going concern*

We consider it in the public interest that the NZAuASB and the AUASB reach agreement on the wording of the auditor's responsibilities in relation to going concern in the interim review report.

*Compliance frameworks*

While we acknowledge reviews of interim financial reports prepared in accordance with compliance frameworks are not inconceivable, we expect them to be rare. If NZ SRE 2410 is to also include reference to compliance frameworks, we have the following observations:

- Paragraph A2 of the ED appears to only address fair presentation frameworks.
- The wording changes in paragraph 36(a) of the ED appear to be inconsistent with paragraph 12(a) of the ED.

*"Adequate disclosure"*

It is not clear what "adequate disclosure" would be in an interim financial report when there is a material uncertainty relating to an event or condition that casts significant doubt on the entity's ability to continue as a going concern. In contrast, paragraph 19 of [ISA \(NZ\) 570](#) prescribes four specific disclosure requirements for annual financial statements that are subject to audit:

- The principal events or conditions that may cast doubt on the entity's ability to continue as a going concern;
- Management's plans for dealing with these events or conditions;
- That there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- That, therefore, the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.