

**NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 2410 (REVISED)
REVIEW OF FINANCIAL STATEMENTS PERFORMED BY THE INDEPENDENT
AUDITOR OF THE ENTITY**

Explanation of Decisions made

Issued June 2020

This document relates to, but does not form part of NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* which was approved by the NZAuASB in June 2020. It summarises the major issues raised by respondents in response to Exposure draft NZAuASB 2019-1 and how the NZAuASB has addressed them.

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NEW ZEALAND STANDARD ON REVIEW ENGAGEMENTS 2410 (REVISED)

REVIEW OF FINANCIAL STATEMENTS PERFORMED BY THE INDEPENDENT AUDITOR OF THE
ENTITY

Explanation of Decisions made by the NZAuASB in Finalising NZ SRE 2410 (Revised)

Issued by the New Zealand Auditing and Assurance Standards Board

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BACKGROUND

1. This Explanation of Decisions Made summarises the NZAuASB's considerations in revising NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*.
2. The International Auditing and Assurance Standards Board (IAASB) issued ISRE 2410 effective from 2006. It has not been updated for clarity nor updated for any subsequent conforming amendments, for example non-compliance with laws and regulations (NOCLAR). The IAASB has no current project on the workplan to update ISRE 2410. It was for this reason that the NZAuASB agreed to issue a domestic standard in 2013 based on a clarified Australian standard.
3. From December 2016, the auditor's report has been enhanced to communicate more and in a transparent manner about the performance of the audit. These changes were limited to the auditing standards.
4. 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 standard.
5. Consistent with the NZAuASB's principle of harmonisation with Australia, the NZAuASB and the Australian Auditing and Assurance Standards Board (AUASB) agreed to work together in a limited scope update of the domestic standards to promote consistency in reporting. In addition, it was agreed it was appropriate to include conforming amendments as a result of the IAASB's project regarding NOCLAR conforming amendments.
6. The NZAuASB approved an exposure draft NZAuASB 2019-1 (ED NZAuASB 2019-1) in February 2019, subject to consideration by the AUASB. The AUASB issued Explanatory Memorandum and Exposure Draft 01/19: ASRE 2410 *Review of a Financial Report Performed by the Auditor of the Entity* (ED 01/19) on 16 May 2019, seeking feedback from stakeholders on proposed amendments to ASRE 2410.
7. The NZAuASB released the New Zealand equivalent exposure draft NZAuASB 2019-1 (ED NZAuASB 2019-1) on 12 July 2019 with a comment deadline of 14 October 2019. The majority of the proposed changes in the EDs were consistent, however the NZAuASB and the AUASB had alternate views on how to describe, in the auditor's review report, the auditor's responsibility relating to going concern.
8. The NZAuASB received 5 comment letters, received feedback from the XRB, the NZASB and the XRAP meetings, conducted an online survey and sought feedback from targeted stakeholders, including users of interim review reports.

9. There was general support for the limited scope project to promote consistency in practice and for the limited proposed changes to the interim review report, which included:
 - a. Conforming amendments for NOCLAR to align with the Code of Ethics;
 - b. Re-ordering the report so that the opinion comes first, followed by a “Basis for Opinion” section;
 - c. Naming the engagement partner in the report;
 - d. An affirmative statement about the auditor’s independence and fulfilment of relevant ethical requirements;
 - e. A description of the respective responsibilities of those charged with governance and the auditor for going concern; and
 - f. Referring to a material uncertainty related to going concern as an “emphasis of matter” or under the heading “Material uncertainty related to going concern”.
10. Feedback was also received regarding two elements reported in the annual auditor’s report that were not proposed to be included in the interim review report:
 - a. An “Other Information” section to clarify that the auditor’s opinion does not cover the other information included in an annual report;
 - b. 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.

MAJOR ISSUES RAISED BY RESPONDENTS

Description of the responsibilities related to going concern

11. The NZAuASB’s invitation to comment specifically sought feedback on two different options to describe the auditor’s responsibilities related to going concern, reflecting two possible options being considered by the NZAuASB and the AUASB.
12. As a result of the update to ISA (NZ) 700 (Revised), the annual auditor’s report includes enhanced disclosure about the auditor’s responsibilities in relation to going concern. The NZAuASB and the AUASB considered that it was also appropriate to enhance the description of the responsibility in relation to going concern in the auditor’s interim review report, in order to improve transparency and to avoid misunderstanding from users. However, as discussed above, both boards had different views on how best to describe this.
13. The proposed description of the auditor’s responsibilities in relation to going concern included in NZAuASB’s ED 2019-1 was closely aligned to the description in ISA (NZ) 700 (Revised), amended for a review engagement, and was:

“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 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 our review report to the related disclosures in the 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”.

14. The AUASB concluded that the description of the auditor’s responsibilities included in the auditor’s interim review report should reflect the procedural requirement of ASRE 2410 paragraph 19 in relation to going concern. Based on this, the AUASB’s ED 01/194 included the following in relation to the description of the auditor’s responsibility in the auditor’s review report:

“We make enquiries about whether those charged with governance 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, we become aware of events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern: (a) we enquire of those charged with governance 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; and (b) we consider the adequacy of the disclosure about such matters in the financial report.”

15. Whilst most stakeholders were supportive of including a description of the auditor’s responsibility in relation to going concern in the review report, overall respondents were generally not supportive of either option, as “both options have their weaknesses”, including:
- a. that an explicit statement that the auditor concludes on the appropriateness of the use of the going concern basis of accounting and whether a material uncertainty related to going concern exists, could be misleading to readers of the review report, and might incorrectly be interpreted as providing a reasonable level of assurance;
 - b. repeating one of the requirements from the standard was incomplete and that this procedure was not equivalent to the responsibility.
16. Various views were received in relation to the proposed description of the auditors’ responsibilities related to going concern. Key themes emerging highlighted:
- a. A public interest need for the NZAuASB and the AUASB to work together to agree a common approach.

- b. A need to clarify the objective and scope of the proposals and the value added by doing so.
 - c. A need for simple, understandable language.
17. Additional factors raised included:
- a. The length and emphasis of the going concern description in the review report may result in an unbalanced report, with a disproportionate focus on going concern.
 - b. The post implementation review of auditor reporting by the IAASB, which will explore extending the reporting requirements beyond audits, and a reluctance to go ahead of the IAASB.

How the NZAuASB responded

18. The NZAuASB recognises the importance of going concern, even more so in the midst of the COVID-19 pandemic. A joint sub-committee between the NZAuASB and the AUASB was formed to look at ways to align the interim review reports, given the range of feedback received.
19. The range of scenarios and considerations related to going concern are complex and difficult to summarise in plain English in a concise manner, especially in a review report where there are broader communication challenges related to explaining the difference between an audit and a review.
20. Lengthy complex words run the risk of unbalancing the report, but short and concise language may not convey the appropriate message in an environment where going concern matters will be an increasing challenge and may inadvertently broaden any expectation gap.
21. More research is required as to the extent of the problem and how best to address those issues. This work falls beyond the scope of the limited scope project. The NZAuASB will continue to monitor if there is a need to perform a more comprehensive update to NZ SRE 2410, while continuing to monitor and influence the IAASB's project on going concern.
22. Both the NZAuASB and the AUASB agreed to retain the current approach, where no explicit reference is made to the auditor's responsibilities related to going concern. In addition, as a result of not including the auditor's responsibility for going concern in the review report, both the NZAuASB and AUASB agreed to not include a description of the responsibility of those charged with governance for going concern in the review report.
23. This decision recognises that internationally the IAASB is also looking to respond to calls for the auditor to communicate more clearer on going concern matters, together with recognition that this requires a more holistic approach.

Non-compliance with laws and regulations (NOCLAR)

24. Respondents supported the inclusion of NOCLAR amendments in NZ SRE 2410 however a respondent recommended the inclusion of additional requirements from ISA (NZ) 250 (Revised) as follows:
- To include a specific requirement to make enquiries as to NOCLAR;
 - To better reflect the communications that the auditor would need to undertake.

How the NZAuASB responded

25. The NZAuASB agreed to make the following change to include a specific requirement to make enquiries about NOCLAR (refer paragraph 22). Application material in paragraph A40 cross references to ISA (NZ) 250 (Revised) for guidance including where there may be additional communication required.

Other Information

26. ISA (NZ) 720 (Revised) requires the inclusion of an Other Information section in the auditor's report in certain circumstances. The NZAuASB had not proposed to mandate the inclusion of this section in the interim review report.
27. Two respondents raised whether the compelling reason test was met in deciding not to mandate an Other information section in the interim review report.

How the NZAuASB responded

28. The NZAuASB and the AUASB agreed not to mandate the reporting of an Other Information Section in the interim review report. 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.

Matters considered to be outside the scope of the project

29. Various stakeholders identified a number of matters, considered by the NZAuASB, to be outside the scope of this limited scope project, including:
- a. A recommendation that the auditor of the entity be defined to clarify that it means the auditor of the entity's annual financial statements. The NZAuASB agreed that this is beyond the scope of the current project.
 - b. Queries as to what the auditor is required to do in the year they are first appointed as the auditor (i.e. have not actually audited the annual financial statements yet). The NZAuASB considered that this is an existing gap in NZ SRE 2410, and would require clarification or addition of the procedures to be performed, which the NZAuASB and AUASB have agreed are out of scope of this project.

- c. Additional suggestions for using “plain English” in the review report, which may not be consistent with the international requirements or changes made by the NZAuASB in the auditor’s report.
- d. An encouragement to consistently make the relevant reporting changes to the full suite of review standards. The NZAuASB agreed that this is beyond the scope of the current project and that no further action is taken ahead of the IAASB post implementation review.