



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

AMENDMENTS TO STANDARDS ISSUED BY THE NZAuASB: ANNUAL IMPROVEMENTS 2016

This Standard was issued on 10 November 2016 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 8 December 2016.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to make minor amendments to International Standards on Auditing (New Zealand) and other pronouncements.

This Standard is effective on 15 December 2016. However, early adoption is permitted.

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A: INTRODUCTION

This document sets out 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 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 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 changes.

Section D of this document sets out amendments to Professional and Ethical Standards. Section D uses underlines and strike through to indicate 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 (Revised) *Communication with Those Charged with Governance* and Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners*.

New text is underlined and deleted text is struck through.

13(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.

13(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 International Standard on Auditing (ISA) 220 *Quality Control for an Audit of Financial Statements*.

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).¹

B3 Amendments to the ISAs (NZ) to describe the responsibilities of those charged with governance

The New Zealand contextual paragraph will be amended in ISA (NZ) 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* and ISA (NZ) 550, *Related Parties*, for consistency with amendments previously made to other ISAs (NZ).

New text is underlined and deleted text is struck through.

“In New Zealand, those charged with governance generally ~~often~~ have a ~~statutory~~ responsibility for ensuring an entity meets its legal obligations in relation to ~~for~~ the preparation of the financial statements. In these cases the process of financial reporting is usually delegated to management, but the responsibility for such matters remains with those charged with governance. In applying this standard the auditor shall apply professional judgement, using knowledge of the legal requirements and corporate governance practices of New Zealand as well as the particular engagement circumstances, to determine whether the requirements of this standard apply to management or those charged with governance or both.”

¹ ISA (NZ) 610 (Revised), *Using the Work of Internal Auditors*

B4 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.

In [NZ] Illustrations 1, 2 and 4, where the word "entity" has been used in paragraph 1 or 2 under the heading *Directors' Responsibility for the Financial Statements*, that term will be replaced with "Company" or "Group," as appropriate for the illustration.

New text is underlined and deleted text is struck through.

...

Directors' Responsibility for the Financial Statements

The directors are responsible on behalf of the entity² 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 entity³ 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.

² The word "entity" may need to be replaced by another word that is appropriate in the context of the report, such as, "Company" or "Group".

³ The word "entity" may need to be replaced by another word that is appropriate in the context of the report, such as, "Company" or "Group".

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

The second paragraph under the heading *Opinion* in [NZ] 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 Standards⁴ (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

⁴ 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).

and has not identified a material misstatement of the other information.

- 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” 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 representation 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 PROFESSIONAL AND ETHICAL STANDARD 1 (Revised) *Code of Ethics for Assurance Practitioners*

The definitions of “assurance engagement” and “review engagement” in Professional and Ethical Standard 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 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), and 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 Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*

The definition of “assurance engagement” in Professional and Ethical Standard 3 (Amended) is amended to be consistent with the definition of “assurance engagement” in International Standard on Assurance Engagements (New Zealand) 3000 (Revised).

The definition of “public interest entity” in Professional and Ethical Standard 3 (Amended) is amended to be consistent with the definition of “public interest entity” in Professional and Ethical Standard 1 (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 subject matter against criteria).

[NZ12.7] *Public interest entity* – Any entity that is required or opts to prepare financial statements to comply with Tier 1 For-profit Accounting Requirements or Tier 1 PBE Accounting Requirements in accordance with XRB A1⁵

- ~~• Any for profit entity that is required or chooses to report in accordance with XRB A1⁶; and~~
- Any other public benefit entity⁷ that applies the full financial reporting standards.

E: EFFECTIVE DATE

The amendments are effective on 15 December 2016; early adoption is permitted.

⁵ XRB A1 *Application of the Accounting Standards Framework*.

⁶ ~~XRB A1 *Application of Accounting Standards*.~~

⁷ ~~XRB A1 for Tier 1 public benefit entities will only be finalised in 2014/2015. It is the intention of the NZAuASB that all Tier 1 entities will meet the definition of a public interest entity for purposes of this standard.~~