

PROPOSED CONFORMING AMENDMENTS TO NEW ZEALAND INTERNATIONAL STANDARDS ON AUDITING (ISA) (NZ) AND RELATED MATERIAL ARISING FROM THE QUALITY MANAGEMENT PROJECTS

Underline and strikethrough are used to indicate proposed changes.

ISA (NZ) 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing

Introduction

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Requirements

Ethical Requirements Relating to an Audit of Financial Statements

14. The auditor shall comply with relevant ethical requirements, including those ~~pertainin~~related to independence, relating to financial statement audit engagements. (Ref: Para. A16–A19)

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Application and Other Explanatory Material

Ethical Requirements Relating to an Audit of Financial Statements (Ref: Para. 14)

- A19. [Proposed] Professional and Ethical Standard 3,¹ or national requirements that are at least as demanding,² deal with the firm's responsibilities to ~~establish design, implement and maintain its~~operate a system of quality control for audit engagements. PES 3 sets out the responsibilities of management that provides the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel ~~comply~~fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements. As part of its system of quality management, [proposed] Professional and Ethical Standard 3 requires the firm to establish quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those ~~pertainin~~related to independence.³ [Proposed] ISA (NZ) 220 (Revised) sets out the engagement partner's responsibilities with respect to relevant ethical requirements, including those related to independence.⁴ ~~These include remaining alert, through observation and making inquiries as necessary, for evidence of breaches of relevant ethical requirements by members of the engagement team, determining the appropriate action if matters come to the engagement partner's attention that indicate that members of the engagement team have breached relevant ethical requirements, and forming a conclusion on compliance with~~

¹ [Proposed] Professional and Ethical Standard 3, *Quality Control~~Management~~ for Firms that Perform Audits ~~and/or~~ Reviews of Financial Statements, ~~and/or~~ Other-Assurance ~~and/or~~ Related Services Engagements*

² [Proposed] ISA (NZ) 220 (Revised), *Quality Control~~Management~~ for an Audit of Financial Statements*, paragraph 23

³ [Proposed] Professional and Ethical Standard 3, paragraphs 20–25~~29~~

⁴ [Proposed] ISA (NZ) 220 (Revised), paragraphs 16–21

~~independence requirements that apply to the audit engagement.~~⁵ ISA (NZ) 220 recognises that the engagement team is entitled to rely on a firm's system of quality control in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement, unless information provided by the firm or other parties suggests otherwise. [Proposed] ISA (NZ) 220 (Revised) also describes when the engagement team may depend on the firm's policies or procedures in managing and achieving quality at the engagement level.⁶

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Professional Judgement (Ref: Para. 16)

A27. The exercise of professional judgement in any particular case is based on the facts and circumstances that are known by the auditor. Consultation on difficult or contentious matters during the course of the audit, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm, such as that required by [Proposed] ISA (NZ) 220 (Revised),⁷ assist the auditor in making informed and reasonable judgements.

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Sufficient Appropriate Audit Evidence and Audit Risk (Ref: Para. 5 and 17)

Sufficiency and Appropriateness of Audit Evidence

A30. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has determined whether changes have occurred since the previous audit that may affect its relevance to the current audit⁸) or through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement ~~firm's quality control procedures for client acceptance or continuance~~. In addition to other sources inside and outside the entity, the entity's accounting records are an important source of audit evidence. Also, information that may be used as audit evidence may have been prepared by an expert employed or engaged by the entity. Audit evidence comprises both information that supports and corroborates management's assertions, and any information that contradicts such assertions. In addition, in some cases, the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence. Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence.

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⁵ ~~ISA (NZ) 220, paragraphs 9–12~~

⁶ [Proposed] ISA (NZ) 220 (Revised), paragraph A10

⁷ [Proposed] ISA (NZ) 220 (Revised), paragraph 4835

⁸ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 916

ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*

Introduction

Scope of this ISA (NZ)

1. This New Zealand International Standard on Auditing (ISA) (NZ) deals with the auditor's responsibilities in agreeing the terms of the audit engagement with management and, where appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, responsibility for which rests with management and, where appropriate, those charged with governance, are present. [proposed] ISA (NZ) 220 (Revised)⁹ deals with those aspects of engagement acceptance that are within the control of the auditor. (Ref: Para. A1)

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Requirements

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Application and Other Explanatory Material

Scope of this ISA (NZ) (Ref: Para. 1)

A1. Professional and Ethical Standard 3¹⁰ deals with the firm's responsibilities regarding the acceptance and continuance of client relationships and specific engagements. Assurance engagements, which include audit engagements, may only be accepted when the practitioner considers that relevant ethical requirements such as independence and professional competence will be satisfied, and when the engagement exhibits certain characteristics.¹⁴ The auditor's responsibilities in respect of relevant ethical requirements, including those related to independence, in the context of the acceptance of an audit engagement and in so far insofar as they are within the control of the auditor are dealt with in [proposed] ISA (NZ) 220 (Revised).¹² This ISA (NZ) deals with those matters (or preconditions) that are within the control of the entity and upon which it is necessary for the auditor and the entity's management to agree.

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ISA 230 (NZ), *Audit Documentation*

Introduction

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Nature and Purposes of Audit Documentation

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3. Audit documentation serves a number of additional purposes, including the following:
 - Assisting the engagement team to plan and perform the audit.

⁹ [Proposed] (Revised), *Quality Control/Management ISA (NZ) 220 for an Audit of Financial Statements*

¹⁰ [Proposed] Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 30

¹⁴ *International Framework for Assurance Engagements*, paragraph 17

¹² [Proposed] ISA (NZ) 220 (Revised), paragraphs 9–11, 16–21

- Assisting members of the engagement team responsible for supervision to direct and supervise the audit work, and to discharge their review responsibilities in accordance with [proposed] ISA (NZ) 220 (Revised).¹³
- Enabling the engagement team to be accountable for its work.
- Retaining a record of matters of continuing significance to future audits.
- Enabling the conduct of engagement quality control reviews,¹⁴ other types of engagement reviews¹⁵ and monitoring activities under the firm's system of quality management inspections in accordance with PES 3¹⁶ or national requirements that are at least as demanding.¹⁷
- Enabling the conduct of external inspections in accordance with applicable legal, regulatory or other requirements.

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Requirements

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Application and Other Explanatory Material

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

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Form, Content and Extent of Audit Documentation (Ref: Para. 8)

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Documentation of Compliance with ISAs (NZ) (Ref: Para. 8(a))

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A7. Audit documentation provides evidence that the audit complies with the ISAs (NZ). However, it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgement made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file. For example:

- The existence of an adequately documented audit plan demonstrates that the auditor has planned the audit.
- The existence of a signed engagement letter in the audit file demonstrates that the auditor has agreed the terms of the audit engagement with management or, where appropriate, those charged with governance.

¹³ [Proposed] ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 15–17–29–34

¹⁴ [Proposed] Professional and Ethical Standard 4, *Engagement Quality Reviews*

¹⁵ Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph A135

¹⁶ PES 3, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraphs 32–33, 35–38, and 48

¹⁷ ISA (NZ) 220, paragraph 2

- An auditor's report containing an appropriately qualified opinion on the financial statements demonstrates that the auditor has complied with the requirement to express a qualified opinion under the circumstances specified in the ISAs (NZ).
- In relation to requirements that apply generally throughout the audit, there may be a number of ways in which compliance with them may be demonstrated within the audit file:
 - For example, there may be no single way in which the auditor's professional scepticism is documented. But the audit documentation may nevertheless provide evidence of the auditor's exercise of professional scepticism in accordance with the ISAs (NZ). For example, in relation to accounting estimates, when the audit evidence obtained includes evidence that both corroborates and contradicts management's assertions, documenting how the auditor evaluated that evidence, including the professional judgements made in forming a conclusion as to the sufficiency and appropriateness of the audit evidence obtained.
 - Similarly, that the engagement partner has taken responsibility for the direction, and supervision and performance of the audit in compliance with engagement team and the ISAs review of their work¹⁸ may be evidenced in a number of ways within the audit documentation. This may include documentation of that evidences the engagement partner's timely sufficient and appropriate involvement in aspects of the audit, such as participation in the engagement team discussions required by ISA (NZ) 315 (Revised 2019).¹⁹

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A13. [Proposed] ISA (NZ) 220 (Revised) contains requirements and guidance on the ~~requires the auditor to review the audit work performed through review of the audit documentation.~~²⁰ The requirement to document who reviewed the audit work performed does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what audit work was reviewed, who reviewed such work, and when it was reviewed.

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Matters Arising after the Date of the Auditor's Report (Ref: Para. 13)

A20. Examples of exceptional circumstances include facts which become known to the auditor after the date of the auditor's report but which existed at that date and which, if known at that date, might have caused the financial statements to be amended or the auditor to modify the opinion in the auditor's report.²¹ The resulting changes to the audit documentation are reviewed in accordance with the review responsibilities set out in [proposed] ISA (NZ) 220 (Revised),²² ~~with the engagement partner taking final responsibility for the changes.~~

Assembly of the Final Audit File (Ref: Para. 14–16)

A21. Professional and Ethical Standard 3 (or national requirements that are at least as demanding) requires firms' systems of quality management to establish a quality objective that addresses the assembly

¹⁸ [Proposed] ISA (NZ) 220 (Revised), paragraph 29

¹⁹ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph 17

²⁰ [Proposed] ISA (NZ) 220 (Revised), paragraphs ~~17~~29–34

²¹ ISA (NZ) 560, *Subsequent Events*, paragraph 14

²² [Proposed] ISA (NZ) 220 (Revised), paragraphs ~~16~~29–34

~~of engagement documentation on a timely basis after the date of the engagement reports~~~~policies and procedures for the timely completion of the assembly of audit files.~~²³ An appropriate time limit within which to complete the assembly of the final audit file is ordinarily not more than 60 days after the date of the auditor's report.²⁴

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- A23. Professional and Ethical Standard 3 (or national requirements that are at least as demanding) requires firms' systems of quality management to establish a quality objective to address the appropriate maintenance and~~policies and procedures for the retention of engagement documentation to meet the needs of the firm and to comply with law, regulation, relevant ethical requirements, or professional standards.~~²⁵ The retention period for audit engagements ordinarily is no shorter than five years from the date of the auditor's report, or, if later, the date of the ~~group~~ auditor's report on the group financial statements, when applicable.²⁶
- A24. An example of a circumstance in which the auditor may find it necessary to modify existing audit documentation or add new audit documentation after file assembly has been completed is the need to clarify existing audit documentation arising from comments received during monitoring ~~inspections performed by internal activities or external parties~~inspections.

Appendix (Ref: Para. 1)

Specific Audit Documentation Requirements in Other ISAs (NZ)

This appendix identifies paragraphs in other ISAs (NZ) that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- ISA (NZ) 210, *Agreeing the Terms of Audit Engagements* – paragraphs 10–12
- [Proposed] ISA (NZ) 220 (*Revised*), *Quality ~~Control~~ Management for an Audit of Financial Statements* – paragraphs ~~24–41~~

ISA (NZ) 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Introduction

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Requirements

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Application and Other Explanatory Material

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Evaluating the Implications of Identified or Suspected Non-Compliance (Ref: Para. 22)

²³ Professional and Ethical Standard 3, paragraph ~~45~~31(f)

²⁴ Professional and Ethical Standard 3, paragraph ~~A54~~A83

²⁵ Professional and Ethical Standard 3, paragraph ~~47~~31(f)

²⁶ Professional and Ethical Standard 3, paragraph ~~A64~~A85

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A25. In certain circumstances, the auditor may consider withdrawing from the engagement, where permitted by law or regulation, for example when management or those charged with governance do not take the remedial action that the auditor considers appropriate in the circumstances or the identified or suspected non-compliance raises questions regarding the integrity of management or those charged with governance, even when the non-compliance is not material to the financial statements. The auditor may consider it appropriate to obtain legal advice to determine whether withdrawal from the engagement is appropriate. When the auditor determines that withdrawing from the engagement would be appropriate, doing so would not be a substitute for complying with other responsibilities under law, regulation or relevant ethical requirements to respond to identified or suspected non-compliance. Furthermore, paragraph ~~A9A55~~ of [proposed] ISA (NZ) 220 (Revised)²⁷ indicates that some ethical requirements may require the predecessor auditor, upon request by the proposed successor auditor, to provide information regarding non-compliance with laws and regulations to the successor auditor.

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ISA (NZ) 260 (Revised), *Communication with Those Charged with Governance*

Introduction

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Requirements

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Application and Other Explanatory Material

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Matters to Be Communicated

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Significant Findings from the Audit (Ref: Para. 16)

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Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(e))

A28. To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality ~~control~~–reviewer, if one has been appointed, ~~in accordance with ISA (NZ) 220.~~²⁸

²⁷ [Proposed] ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*

²⁸ See paragraphs 19–22 and A23–A33 of ISA (NZ) 220, *Quality Control for an Audit of Financial Statements*.

Auditor Independence (Ref: Para. 17)

A29. The auditor is required to comply with relevant ethical requirements, including those ~~pertaini~~ng~~related~~ to independence, relating to financial statement audit engagements.²⁹

Appendix 1

(Ref: Para. 3)

Specific Requirements in [Proposed] PES 3 and Other ISAs (NZ) that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in Professional and Ethical Standard 3³⁰ and other ISAs (New Zealand) that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs (NZ).

- [Proposed] PES 3, *Quality Control/Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements* – paragraph 30(a)~~34(e)~~

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ISA (NZ) 300, *Planning an Audit of Financial Statements*

Introduction

Scope of this ISA (NZ)

1. This New Zealand International Standard on Auditing (ISA) (NZ) deals with the auditor's responsibility to plan an audit of financial statements. This ISA (NZ) is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified.

The Role and Timing of Planning

2. Planning an audit involves establishing the overall audit strategy for the engagement and developing an audit plan. ~~Adequate~~Quality management at the engagement level in accordance with [proposed] ISA (NZ) 220 (Revised), in conjunction with adequate planning in accordance with this ISA (NZ), benefits the audit of financial statements in several ways, including the following: (Ref: Para. A4A0–A3)
 - Helping the auditor to devote appropriate attention to important areas of the audit.
 - Helping the auditor identify and resolve potential problems on a timely basis.
 - Helping the auditor properly organise and manage the audit engagement so that it is performed in an effective and efficient manner.
 - Assisting in the selection of engagement team members with appropriate levels of capabilities and competence to respond to anticipated risks, and the proper assignment of work to them.

²⁹ ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

³⁰ Professional and Ethical Standard 3, *Quality Control/Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements*

- Facilitating the direction and supervision of engagement team members and the review of their work.
- Assisting, where applicable, in coordination of work done by auditors of components and experts.

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Requirements

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Preliminary Engagement Activities

- The auditor shall undertake the following activities at the beginning of the current audit engagement:
 - Performing procedures required by [proposed] ISA (NZ) 220 (Revised) regarding the acceptance and continuance of the client relationship and ~~the specific~~ audit engagement;³¹
 - Evaluating compliance with relevant ethical requirements, including those related to independence, in accordance with [proposed] ISA (NZ) 220 (Revised);³² and
 - Establishing an understanding of the terms of the engagement, as required by ISA (NZ) 210.³³
(Ref: Para. A5–A7)

Planning Activities

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- In establishing the overall audit strategy, the auditor shall consider the information obtained from complying with the requirements of [proposed] ISA (NZ) 220 (Revised) and:
 - Identify the characteristics of the engagement that define its scope;
 - Ascertain the reporting objectives of the engagement to plan the timing of the audit and the nature of the communications required;
 - Consider the factors that, in the auditor's professional judgement, are significant in directing the engagement team's efforts;
 - Consider the results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant; and
 - Ascertain the nature, timing and extent of resources necessary to perform the engagement.³⁴
(Ref: Para. A8–A11)
- The auditor shall develop an audit plan that shall include a description of:
 - The nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)

³¹ [Proposed] ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 12–13 ~~22–24~~

³² [Proposed] ISA (NZ) 220 (Revised), paragraphs 9–11 ~~16–21~~

³³ ISA (NZ) 210, *Agreeing the Terms of Audit Engagements*, paragraphs 9–13

³⁴ [Proposed] ISA (NZ) 220 (Revised), paragraph 25

- (ab) The nature, timing and extent of planned risk assessment procedures, as determined under ISA (NZ) 315 (Revised 2019).³⁵
- (bc) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA (NZ) 330.³⁶
- (ed) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs (NZ). (Ref: Para. A12-A14)

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~~11. The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17)~~

Documentation

12. The auditor shall include in the audit documentation.³⁷
- (a) The overall audit strategy;
 - (b) The audit plan; and
 - (c) Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, including significant changes to the nature, timing and extent of the planned direction and supervision of engagement team members and the review of their work,³⁸ and the reasons for such changes. (Ref: Para. A18–A21)

Additional Considerations in Initial Audit Engagements

13. The auditor shall undertake the following activities prior to starting an initial audit:
- (a) Performing procedures required by [proposed] ISA (NZ) 220 (Revised) regarding the acceptance of ~~the client relationships~~ and the specific audit engagements;³⁹ and
 - (b) Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A22)

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Application and Other Explanatory Material

~~A0. [Proposed] ISA (NZ) 220 (Revised) deals with the specific responsibilities of the auditor regarding quality management at the engagement level for an audit of financial statements, and the related responsibilities of the engagement partner. Information obtained from complying with the requirements of [proposed] ISA (NZ) 220 (Revised) is relevant to this ISA (NZ). For example, in accordance with [proposed] ISA (NZ) 220 (Revised), the engagement partner is required to determine that sufficient and appropriate resources to perform the engagement have been assigned or made available to the engagement team, given taking into account the nature and circumstances of the audit engagement. Such a determination is directly relevant when ascertaining the nature,~~

³⁵ ISA (NZ) 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³⁶ ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

³⁷ ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11, and A6

³⁸ [Proposed] ISA (NZ) 220 (Revised), paragraphs 30 and A91–A92

³⁹ [Proposed] ISA (NZ) 220 (Revised), paragraphs 42–43 ~~22–24~~

timing and extent of resources necessary to perform the engagement in the overall strategy, as required by paragraph 8 of this ISA (NZ).

The Role and Timing of Planning (Ref: Para. 2)

A1. The nature and extent of planning activities will vary according to the size and complexity of the entity, the key engagement team members' previous experience with the entity, and changes in circumstances that occur during the audit engagement. In planning the audit, the auditor may use project management techniques and tools. [Proposed] ISA (NZ) 220 (Revised)⁴⁰ describes how such techniques and tools may support the engagement team in managing the quality of the engagement.

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A3. The auditor may decide to discuss elements of planning with the entity's management to ~~facilitate the conduct and management of the audit engagement~~help the auditor manage and achieve quality at the engagement level (for example, to coordinate some of the planned audit procedures with the work of the entity's personnel). Although these discussions often occur, the overall audit strategy and the audit plan remain the auditor's responsibility. When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.

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Preliminary Engagement Activities (Ref: Para. 6)

A5. Performing the preliminary engagement activities specified in paragraph 6 at the beginning of the current audit engagement assists the auditor in identifying and evaluating events or circumstances that may adversely affect the auditor's ability to ~~plan and perform the audit engagement~~manage and achieve quality at the engagement level in accordance with [proposed] ISA (NZ) 220 (Revised).

A6. Performing these preliminary engagement activities enables the auditor to plan an audit engagement ~~for which~~in order to, for example:

- ~~The auditor maintains~~Maintain the necessary independence and ability to perform the engagement.
- ~~There~~Determine that there are no issues with management integrity that may affect the auditor's willingness to continue the engagement.
- ~~There~~Determine that there is no misunderstanding with the client as to the terms of the engagement.

A7. ~~The auditor's consideration of client continuance and relevant ethical requirements, including independence, occurs throughout the audit engagement as conditions and changes in circumstances occur.~~ Performing initial procedures on both client continuance and evaluation of relevant ethical requirements (including independence) at the beginning of the current audit engagement means that they are completed prior to the performance of other significant activities for the current audit engagement. For continuing audit engagements, such initial procedures often occur shortly after (or in connection with) the completion of the previous audit.

⁴⁰ [Proposed] ISA (NZ) 220 (Revised), paragraphs A73–A74

Planning Activities

The Overall Audit Strategy (Ref: Para. 7–8)

A8. The process of establishing the overall audit strategy ~~assists the auditor to determine~~, subject to the completion of the auditor's risk assessment procedures, may include such matters as:

- The nature of resources (human, technological or intellectual) to be deployed for specific audit areas, ~~such as. For example, the use~~ deployment of appropriately experienced team members for high risk areas, or the ~~involvement~~ assignment of experts ~~to~~ to address complex matters;
- The amount of resources to ~~allocate~~ be allocated to specific audit areas, ~~such as. For example,~~ the number of team members assigned to ~~observe~~ attend the physical inventory count at ~~material~~ multiple locations, the extent of review of other auditors' work in the case of group audits, or the audit budget in hours to allocate to high risk areas;
- When these resources are to be deployed, such as whether at an interim audit stage or at key cutoff dates; and
- How such resources are ~~managed, directed and, supervised, such as or used. For example,~~ when team briefing and debriefing meetings are expected to be held, how engagement partner and manager reviews are expected to take place (for example, on-site or off-site), ~~and whether to complete engagement quality reviews.~~

A8A. [Proposed] ISA (NZ) 220 (Revised) contains requirements and guidance on engagement resources and engagement performance (including direction and supervision of the members of the engagement team and the review of their work).

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Direction, Supervision and Review (Ref: Para. 11)

A16. [Proposed] ISA (NZ) 220 (Revised) deals with establishes requirements and provides guidance on the engagement partner's responsibility for the nature, timing and extent of direction and supervision of the members of the engagement team and the review of their work.⁴¹ ~~The nature, timing and extent of the direction and supervision of engagement team members and review of their work vary depending on many factors, including:~~

- ~~The size and complexity of the entity.~~
- ~~The area of the audit.~~
- ~~The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily requires a corresponding increase in the extent and timeliness of direction and supervision of engagement team members, and a more detailed review of their work).~~
- ~~The capabilities and competence of the individual team members performing the audit work.~~

~~ISA (NZ) 220 contains further guidance on the direction, supervision and review of audit work.~~⁴²

Considerations Specific to Smaller Entities

⁴¹ [Proposed] ISA (NZ) 220 (Revised), paragraphs 29–31

⁴² ISA (NZ) 220, paragraphs 15–17

~~A17. If an audit is carried out entirely by the engagement partner, questions of direction and supervision of engagement team members and review of their work do not arise. In such cases, the engagement partner, having personally conducted all aspects of the work, will be aware of all material issues. Forming an objective view on the appropriateness of the judgements made in the course of the audit can present practical problems when the same individual also performs the entire audit. If particularly complex or unusual issues are involved, and the audit is performed by a sole practitioner, it may be desirable to consult with other suitably experienced auditors or the auditor's professional body.~~

Documentation (Ref: Para. 12)

A18. The documentation of the overall audit strategy is a record of the key decisions ~~considered necessary to properly plan the audit and~~ in managing quality at the engagement level and a means to communicate significant matters to the engagement team. For example, the auditor may summarise the overall audit strategy in the form of a memorandum that contains key decisions regarding the overall scope, timing and conduct of the audit.

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A20A. Documentation of the direction and supervision of engagement team members and the review of their work in accordance with [proposed] ISA (NZ) 220 (Revised) may also provide a record of significant changes to the planned nature, timing and extent of the direction, supervision and review.

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Additional Considerations in Initial Audit Engagements (Ref: Para. 13)

A22. The purpose and objective of planning the audit are the same whether the audit is an initial or recurring engagement. However, for an initial audit, the auditor may need to expand the planning activities because the auditor does not ordinarily have the previous experience with the entity that is considered when planning recurring engagements. For an initial audit engagement, additional matters the auditor may consider in establishing the overall audit strategy and audit plan include the following:

- Unless prohibited by law or regulation, arrangements to be made with the predecessor auditor, for example, to review the predecessor auditor's working papers.
- Any major issues (including the application of accounting principles or of auditing and reporting standards) discussed with management in connection with the initial selection as auditor, the communication of these matters to those charged with governance and how these matters affect the overall audit strategy and audit plan.
- The audit procedures necessary to obtain sufficient appropriate audit evidence regarding opening balances.⁴³
- ~~Other procedures required~~ responses designed and implemented by the firm's system of quality control ~~firm~~ for initial audit engagements (for example, e.g., the firm's system of quality control ~~management may include responses that require the involvement of another partner or senior individual with appropriate authority to review the overall audit strategy prior to commencing significant audit procedures or to review reports prior to their issuance).~~

Appendix

⁴³ ISA (NZ) 510, *Initial Audit Engagements—Opening Balances*

Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in ~~establishing the overall audit strategy~~ managing quality at the engagement level. Many of these matters will ~~also~~ influence the auditor's overall audit strategy and detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs (NZ), not all matters are relevant to every audit engagement and the list is not necessarily complete.

Nature, Timing and Extent of Resources

- The ~~selection~~ human, technological and intellectual resources assigned or made available to the engagement (e.g., assignment of the engagement team (including, where necessary, the engagement quality control reviewer) and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement).
- Engagement budgeting, including considering the appropriate amount of time to set aside for areas where there may be higher risks of material misstatement.

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ISA (NZ) 315 (Revised 2019)

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Application and Other Explanatory Material

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Risk Assessment Procedures and Related Activities

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Other Relevant Sources

Information from Other Sources

A38. Other relevant sources of information include:

- The auditor's procedures regarding acceptance or continuance of the client relationship or the audit engagement in accordance with [proposed] ISA (NZ) 220 (Revised), including the conclusions reached thereon.⁴⁴

...

Identifying and Assessing the Risks of Material Misstatement (Ref: Para. 28–37)

...

Industry, Regulatory and Other External Factors (Ref: Para. 19(a)(ii))

Industry Factors

⁴⁴ [Proposed] ISA (NZ) 220, *Quality Control/Management for an Audit of Financial Statements*, paragraphs 4222–24

...

A69. The industry in which the entity operates may give rise to specific risks of material misstatement arising from the nature of the business or the degree of regulation.

Example:

In the construction industry, long-term contracts may involve significant estimates of revenues and expenses that give rise to risks of material misstatement. In such cases, it is important that the engagement team include members with ~~sufficient relevant knowledge and experience~~the appropriate competence and capabilities.⁴⁵

Assessing Risks of Material Misstatement at the Assertion Level

Significant Risks (Ref: Para. 32)

Why significant risks are determined and the implications for the audit

A218. The determination of significant risks allows for the auditor to focus more attention on those risks that are on the upper end of the spectrum of inherent risk, through the performance of certain required responses, including:

- ...
- Timely review of audit documentation by the engagement partner at the appropriate stages during the audit allows significant matters, including significant risks, to be resolved on a timely basis to the engagement partner's satisfaction on or before the date of the auditor's report.⁴⁶

...

ISA (NZ) 500, *Audit Evidence*

...

Application and Other Explanatory Material

Sufficient Appropriate Audit Evidence (Ref: Para. 6)

...

A5. Audit evidence is necessary to support the auditor's opinion and report. It is cumulative in nature and is primarily obtained from audit procedures performed during the course of the audit. It may, however, also include information obtained from other sources such as previous audits (provided the auditor has evaluated whether such information remains relevant and reliable as audit evidence for the current audit⁴⁷) or ~~a firm's quality control procedures for client acceptance and continuance~~through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement. In addition, the entity's accounting records and other sources internal to the entity are important sources of audit evidence. Information that may be used as audit evidence may have been prepared using the work of a management's expert or be obtained from an external information source. Audit evidence comprises both information that supports and corroborates management's

⁴⁵ [Proposed] ISA (NZ) 220 (Revised), paragraphs 4425–28

⁴⁶ [Proposed] ISA (NZ) 220 (Revised), paragraphs 4732 and A19A87–A89

⁴⁷ ISA (NZ) 315 (Revised 2019), paragraph 16

assertions, and any information that contradicts such assertions. In addition, in some cases the absence of information (for example, management's refusal to provide a requested representation) is used by the auditor, and therefore, also constitutes audit evidence.

...

Information to Be Used as Audit Evidence

Relevance and Reliability (Ref: Para. 7)

A30. As noted in paragraph A1, while audit evidence is primarily obtained from audit procedures performed during the course of the audit, it may also include information obtained from other sources ~~such as, for example, previous audits, in certain circumstances, a firm's quality control procedures for client acceptance and continuance and~~ through the information obtained by the firm in the acceptance or continuance of the client relationship or engagement and in complying with certain additional responsibilities under law, regulation or relevant ethical requirements (e.g., regarding an entity's non-compliance with laws and regulations). The quality of all audit evidence is affected by the relevance and reliability of the information upon which it is based.

...

ISA (NZ) 540 (Revised), Auditing Accounting Estimates and Related Disclosures

Introduction

...

Requirements

...

Application and Other Explanatory Material

...

Risk Assessment Procedures and Related Activities

Specialised Skills or Knowledge (Ref: Para. 15)

A61. Matters that may affect the auditor's determination of whether the engagement team requires specialised skills or knowledge, include, for example:⁴⁸

- The nature of the accounting estimates for a particular business or industry (for example, mineral deposits, agricultural assets, complex financial instruments, insurance contract liabilities).

...

ISA (NZ) 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)

Introduction

⁴⁸ [Proposed] ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 4425–26 and ISA (NZ) 300, *Planning an Audit of Financial Statements*, paragraph 8(e)

Scope of this ISA (NZ)

...

4. In accordance with [proposed] ISA (NZ) 220 (Revised),⁴⁹ the group engagement partner is required to ~~determine~~~~be satisfied~~ that those performing the group audit engagement, including component auditors, collectively have the appropriate competence and capabilities, including sufficient time. The group engagement partner is also responsible for the direction ~~and~~, supervision ~~of members of the group engagement team~~ and ~~performance of the group audit engagement~~review of their work.⁵⁰
5. The group engagement partner applies the requirements of [proposed] ISA (NZ) 220 (Revised) regardless of whether the group engagement team or a component auditor performs the work on the financial information of a component. This ISA assists the group engagement partner to meet the requirements of [proposed] ISA (NZ) 220 (Revised) where component auditors perform work on the financial information of components.

...

Requirements

12. In applying [proposed] ISA (NZ) 220 (Revised), the group engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained in relation to the consolidation process and the financial information of the components on which to base the group audit opinion. For this purpose, the group engagement team shall obtain an understanding of the group, its components, and their environments that is sufficient to identify components that are likely to be significant components. Where component auditors will perform work on the financial information of such components, the group engagement partner shall evaluate whether the group engagement team will be able to be involved in the work of those component auditors to the extent necessary to obtain sufficient appropriate audit evidence. (Ref: Para. A10–A12)

...

ISA (NZ) 610 (Revised 2013), *Using the Work of Internal Auditors*

...

Requirements

...

Using Internal Auditors to Provide Direct Assistance

...

34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with [proposed] ISA (NZ) 220 (Revised).⁵¹ In so doing:
 - (a) The nature, timing and extent of direction, supervision, and review shall recognise that the

⁴⁹ [Proposed] ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraphs 14–1525–26

⁵⁰ [Proposed] ISA (NZ) 220 (Revised), paragraphs 29–31

⁵¹ [Proposed] ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*

internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this ISA; and

- (b) The review procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor ~~to determine to be satisfied~~ that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

Application and Other Explanatory Material

...

Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used

Evaluating the Internal Audit Function

...

Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))

...

A11. Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:

- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
- Whether the internal audit function has appropriate quality control policies and procedures, for example, ~~such as these~~ policies and procedures ~~PES-3~~⁵² that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.

ISA (NZ) 620, *Using the Work of an Auditor's Expert*

Introduction

Scope of this ISA (NZ)

...

2. This ISA (NZ) does not deal with:

- (a) Situations where the engagement team includes a member, or consults an individual or organization, with expertise in a specialized area of accounting or auditing, which are dealt with

⁵² ~~PES-3, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements~~

in [proposed] ISA (NZ) 220 (Revised);⁵³ or

- (b) The auditor's use of the work of an individual or organisation possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements (a management's expert), which is dealt with in ISA (NZ) 500.⁵⁴

...

Requirements

...

Nature, Timing and Extent of Audit Procedures

- 8. The nature, timing and extent of the auditor's procedures with respect to the requirements in paragraphs 9–13 of this ISA (NZ) will vary depending on the circumstances. In determining the nature, timing and extent of those procedures, the auditor shall consider matters including: (Ref: Para. A10)
 - (a) The nature of the matter to which that expert's work relates;
 - (b) The risks of material misstatement in the matter to which that expert's work relates;
 - (c) The significance of that expert's work in the context of the audit;
 - (d) The auditor's knowledge of and experience with previous work performed by that expert; and
 - (e) Whether that expert is subject to the auditor's firm's system of quality control policies and procedures management. (Ref: Para. A11–A13)

...

Application and Other Explanatory Material

Determining the Need for an Auditor's Expert (Ref: Para. 7)

...

- A6. If the preparation of the financial statements involves the use of expertise in a field other than accounting, the auditor, who is skilled in accounting and auditing, may not possess the necessary expertise to audit those financial statements. The engagement partner is required to determine~~be satisfied~~ that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities, including sufficient time, to perform the audit engagement.⁵⁵ Further, the auditor is required to ascertain the nature, timing and extent of resources necessary to perform the engagement.⁵⁶ The auditor's determination of whether to use the work of an auditor's expert, and if so when and to what extent, assists the auditor in meeting these requirements. As the audit progresses, or as circumstances change, the auditor may need to revise earlier decisions about using the work of an auditor's expert.

⁵³ [Proposed] ISA (NZ) 220 (Revised), Quality Control Management for an Audit of Financial Statements, paragraphs A11, A21–A23 A19

⁵⁴ ISA (NZ) 500, Audit Evidence, paragraphs A45–A59

⁵⁵ [Proposed] ISA (NZ) 220 (Revised), paragraph 1425–28

⁵⁶ ISA (NZ) 300, Planning an Audit of Financial Statements, paragraph 8(e)

A7. An auditor who is not an expert in a relevant field other than accounting or auditing may nevertheless be able to obtain a sufficient understanding of that field to perform the audit without an auditor's expert. This understanding may be obtained through, for example:

...

- Education or professional development in the particular field. This may include formal courses, or discussion with individuals possessing expertise in the relevant field for the purpose of enhancing the auditor's own capacity to deal with matters in that field. Such discussion differs from consultation with an auditor's expert regarding a specific set of circumstances encountered on the engagement where that expert is given all the relevant facts that will enable the expert to provide informed advice about the particular matter.⁵⁷

...

Nature, Timing and Extent of Audit Procedures (Ref: Para. 8)

A10. The nature, timing and extent of audit procedures with respect to the requirements in paragraphs 9–13 of this ISA (NZ) will vary depending on the circumstances. For example, the following factors may suggest the need for different or more extensive procedures than would otherwise be the case:

- The work of the auditor's expert relates to a significant matter that involves subjective and complex judgements.
- The auditor has not previously used the work of the auditor's expert, and has no prior knowledge of that expert's competence, capabilities and objectivity.
- The auditor's expert is performing procedures that are integral to the audit, rather than being consulted to provide advice on an individual matter.
- The expert is an auditor's external expert and is not, therefore, subject to the firm's system of quality control policies and procedures management.

The Auditor's Firm's System of Quality Control Policies and Procedures Management (Ref: Para. 8(e))

A11. An auditor's internal expert may be a partner or staff (i.e., personnel), including temporary staff, of the auditor's firm, and therefore subject to the system of quality control policies and procedures management of that firm in accordance with Professional and Ethical Standard 3⁵⁸ or national requirements that are at least as demanding.⁵⁹ ~~Alternatively, an~~ An auditor's internal expert may also be a partner or staff, including temporary staff, of a network firm, and is subject to the firm's policies or procedures for network requirements and network services in accordance with [proposed] PES 3. In some instances, the auditor's internal expert of a network firm may be subject to which may share common quality control management policies and/or procedures as the auditor's firm, given that they are part of the same network.

A12. [Proposed] PES 3 requires the firm to address the use of resources from a service provider, which includes the use of an external expert.⁶⁰ An auditor's external expert is not a member of the

⁵⁷ [Proposed] ISA (NZ) 220, paragraph A22A99–A102

⁵⁸ Professional and Ethical Standard 3, *Quality Control/Management for Firms that Perform Audits and/or Reviews of Financial Statements, and/or Other Assurance and/or Related Services Engagements*, paragraph 4216(w)

⁵⁹ [Proposed] ISA (NZ) 220 (Revised), paragraph 23

⁶⁰ [Proposed] PES 3, paragraph 32

engagement team and ~~is may not be~~ subject to quality control policies and procedures in accordance with PES 3.⁶¹ ~~In some jurisdictions, however, the firm's policies or procedures under its system of quality management.~~⁶² Furthermore, the firm's policies or procedures for relevant ethical requirements may include policies or procedures that apply to the auditor's external expert.⁶³ In some cases, ~~Relevant ethical requirements or law or regulation~~ may require that an auditor's external expert be:

- Treated as a member of the engagement team (i.e., the external expert may therefore be subject to relevant ethical requirements, including those ~~pertaining related~~ to independence);
or
- Subject to other professional requirements, ~~as determined by that law or regulation.~~

A13. ~~Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.~~⁶⁴ ~~The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the auditor's procedures with respect to such matters as~~As described in [proposed] ISA (NZ) 220 (Revised), quality management at the engagement level is supported by the firm's system of quality management and informed by the specific nature and circumstances of the audit engagement.⁶⁵ For example, the auditor may be able to depend on the firm's related policies or procedures in respect of:

- Competence and capabilities, through recruitment and training programs.
- Objectivity. Auditor's internal experts are subject to relevant ethical requirements, including those ~~pertaining relating~~ to independence.
- The auditor's evaluation of the adequacy of the auditor's expert's work. For example, the firm's training programs may provide auditor's internal experts with an appropriate understanding of the interrelationship of their expertise with the audit process. Reliance on such training ~~and other firm processes, such as protocols for scoping the work of auditor's internal experts,~~ may affect the nature, timing and extent of the auditor's procedures to evaluate the adequacy of the auditor's expert's work.
- Adherence to regulatory and legal requirements, through monitoring processes.
- Agreement with the auditor's expert.

~~Such reliance~~Matters that the auditor may take into account when determining whether to depend on the firm's policies or procedures are described in [proposed] ISA (NZ) 220 (Revised).⁶⁶ Depending on the firm's policies or procedures does not reduce the auditor's responsibility to meet the requirements of this ISA (NZ).

The Competence, Capabilities and Objectivity of the Auditor's Expert (Ref: Para. 9)

...

⁶¹ PES 3, paragraph 12(f)

⁶² [Proposed] PES 3, paragraph 16(f)

⁶³ [Proposed] PES 3, paragraph 29(b)

⁶⁴ ISA (NZ) 220, paragraph 4

⁶⁵ [Proposed] ISA (NZ) 220 (Revised), paragraph A4

⁶⁶ [Proposed] ISA (NZ) 220 (Revised), paragraphs 4(b) and A10

A15. Information regarding the competence, capabilities and objectivity of an auditor's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other auditors or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- The auditor's firm's system of quality control policies and procedures management (see paragraphs A11–A13).

...

Agreement with the Auditor's Expert (Ref: Para. 11)

...

A26. When there is no written agreement between the auditor and the auditor's expert, evidence of the agreement may be included in, for example:

- Planning memoranda, or related working papers such as the audit program.
- The policies and/or procedures of the auditor's firm's system of quality management. In the case of an auditor's internal expert, the ~~established policies and procedures to which that expert is subject~~ firm's system of quality management may include ~~particular~~ policies and/or procedures ~~in relation~~ relating to that the expert's work. The extent of documentation in the auditor's working papers depends on the nature of such policies and/or procedures. For example, no documentation may be required in the auditor's working papers if the auditor's firm has detailed protocols covering the circumstances in which the work of such an expert is used.

ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

...

Application and Other Explanatory Material

...

Auditor's Report (Ref: Para. 20)

...

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

...

Relevant Ethical Requirements

A36. Law or regulation, national auditing standards or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant

ethical requirements, including those ~~pertaining~~related to independence, that applied to the audit of the financial statements.

Name of the Engagement Partner (Ref: Para. 46)

A61. ~~PES 3⁶⁷ requires that~~ The objective of the firm establish policies in [proposed] PES 3⁶⁸ is to design, implement and ~~procedures to provide~~ operate a system of quality management that provides the firm with reasonable assurance that ~~engagements are performed~~:

- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Notwithstanding ~~these~~the objective of [proposed] PES 3 requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on financial statements of a listed entity.

ISA (NZ) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

...

Application and Other Explanatory Material

...

Determining Key Audit Matters (Ref: Para. 9–10)

...

Matters that Required Significant Auditor Attention (Ref: Para. 9)

...

A15. Various ISAs (NZ) require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- ISA (NZ) 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.⁶⁹ The ISAs (NZ) acknowledge potential difficulties in relation to, for example:
 - Related party transactions,⁷⁰ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.

⁶⁷ PES 3, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 32

⁶⁸ [Proposed] Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraph 14

⁶⁹ ISA (NZ) 260 (Revised), paragraphs 16(b) and A21

⁷⁰ ISA (NZ) 550, *Related Parties*, paragraph A42

- Limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.⁷¹
- [Proposed] ISA (NZ) 220 (Revised) establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters, matters on which the firm's policies or procedures require consultation,⁷² and other matters that in the engagement partner's professional judgement, require consultation. For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters and significant judgements arising during the audit engagement with the engagement quality ~~control~~-reviewer.⁷³

...

Communication with Those Charged with Governance

...

A63. The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor's report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality ~~control~~ reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

ISA (NZ) 720 (Revised), The Auditor's Responsibilities Relating to Other Information

...

Application and Other Explanatory Material

...

Reading and Considering the Other Information (Ref: Para. 14–15)

...

A24. In accordance with [proposed] ISA (NZ) 220 (Revised),⁷⁴ the engagement partner is required to take responsibility for ~~the direction, supervision and performance of the audit engagement~~ direction and supervision of the members of the engagement team and the review of their work,⁷⁵ and determine that the nature, timing and extent of direction, supervision and review is planned and performed in compliance with the firm's policies or procedures, professional standards and applicable legal and regulatory requirements.⁷⁶ In the context of this ISA (NZ), factors that may

⁷¹ ISA (NZ) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 49(d)

⁷² [Proposed] ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*, paragraph 4835

⁷³ [Proposed] ISA (NZ) 220 (Revised), paragraph 4936

⁷⁴ ISA (NZ) 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

⁷⁵ [Proposed] ISA (NZ) 220 (Revised), *Quality Management for an Audit of Financial Statements*, paragraphs 29–30

⁷⁶ [Proposed] ISA (NZ) 220 (Revised), *Quality Control for an Audit of Financial Statements*, paragraph 4530(a)

be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- The relative experience of engagement team members.
- Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
- The degree of judgement involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component.

ISA (NZ) 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

...

Application and Other Explanatory Material

...

Considerations When Accepting the Engagement

Application of ISAs (Ref: Para. 7)

- A5. ISA (NZ) 200 requires the auditor to comply with (a) relevant ethical requirements, including those ~~pertainin~~related to independence, relating to financial statement audit engagements, and (b) all ISAs (NZ) relevant to the audit. It also requires the auditor to comply with each requirement of an ISA (NZ) unless, in the circumstances of the audit, the entire ISA (NZ) is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an ISA (NZ) by performing alternative audit procedures to achieve the aim of that requirement.

IAPN (NZ) 1000, *Special Considerations in Auditing Financial Instruments*

Contents

<p>International Auditing Practice Note (IAPN) (New Zealand) 1000, <i>Special Considerations in Auditing Financial Instruments</i>, should be read in conjunction with the <i>Preface to the International Quality Control Management, Auditing, Review, Other Assurance, and Related Services Pronouncements</i>. IAPNs (NZ) do not impose additional requirements on auditors beyond those included in the New Zealand International Standards on Auditing (ISAs) (NZ), nor do they change the auditor's responsibility to comply with all ISAs (NZ) relevant to the audit. IAPNs (NZ) provide practical assistance to auditors. They are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.</p>
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...

Section II—Audit Considerations Relating to Financial Instruments

Planning Considerations⁷⁷

*Using Those with Specialized Skills and Knowledge in the Audit*⁷⁸

78. A key consideration in audits involving financial instruments, particularly complex financial instruments, is the competence of the auditor. ISA (NZ) 220 (Revised)⁷⁹ requires the engagement partner to ~~determine~~ be satisfied that members of the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the ~~appropriate~~ competence and capabilities, including sufficient time, to perform the audit engagement ~~in accordance with professional standards and applicable legal and regulatory requirements and to enable an auditor's report that is appropriate in the circumstances to be issued~~.⁸⁰ Further, relevant ethical requirements⁸⁰ require the auditor to determine whether acceptance of the engagement would create any threats to compliance with the fundamental principles, including the professional competence and due care. Paragraph 79 below provides examples of the types of matters that may be relevant to the auditor's considerations in the context of financial instruments.

...

80. The nature and use of particular types of financial instruments, the complexities associated with accounting requirements, and market conditions may lead to a need for the engagement team to consult⁸¹ with other accounting and audit professionals, from within or outside the firm, with relevant technical accounting or auditing expertise and experience, taking into account factors such as:

- The capabilities and competence of the engagement team, including the experience of the members of the engagement team.
- The attributes of the financial instruments used by the entity.
- The identification of unusual circumstances or risks in the engagement, as well as the need for professional judgement, particularly with respect to materiality and significant risks.
- Market conditions.

⁷⁷ ISA (NZ) 300, *Planning an Audit of Financial Statements*, deals with the auditor's responsibility to plan an audit of financial statements

⁷⁸ When such a person's expertise is in auditing and accounting, regardless of whether the person is from within or external to the firm, this person is considered to be part of the engagement team and is subject to the requirements of [proposed] ISA (NZ) 220 (Revised), *Quality Control/Management for an Audit of Financial Statements*. When such a person's expertise is in a field other than accounting or auditing, such person is considered to be an auditor's expert, and the provisions of ISA (NZ) 620, *Using the Work of an Auditor's Expert*, apply. ISA (NZ) 620 explains that distinguishing between specialised areas of accounting or auditing, and expertise in another field, will be a matter of professional judgement, but notes the distinction may be made between expertise in methods of accounting for financial instruments (accounting and auditing expertise) and expertise in complex valuation techniques for financial instruments (expertise in a field other than accounting or auditing).

⁷⁹ [Proposed] ISA (NZ) 220 (Revised), paragraph 4426

⁸⁰ Professional and Ethical Standard 1 (PES 1) paragraphs 320.1-320.10 A1

⁸¹ [Proposed] ISA (NZ) 220 (Revised), paragraph 48(b)35, requires the engagement partner to ~~be satisfied~~ determine that members of the engagement team have undertaken appropriate consultation during the ~~course of the audit~~ engagement, both within the engagement team, and between the engagement team and others at the appropriate level within or outside the firm.