

**INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS (NEW ZEALAND)
2400 REVIEW OF HISTORICAL FINANCIAL STATEMENTS PERFORMED BY
AN ASSURANCE PRACTITIONER WHO IS NOT THE AUDITOR OF THE
ENTITY**

Explanation of Decisions made by the NZAuASB in Finalising ISRE (NZ) 2400

Issued December 2013

This document relates to, but does not form part of ISRE (NZ) 2400, *Review of Historical Financial Statements Performed by an Assurance Practitioner who is not the Auditor of the Entity* which was approved by the NZAuASB in December 2013. It summarises the changes made by the NZAuASB to the International Standard on Review Engagements (ISRE) 2400 and provides the compelling reasoning as to why the changes were made. It also summarises the major issues raised by respondents to Exposure draft 2013-1 *Review of Historical Financial Statements Performed by an Assurance Practitioner*, and how the NZAuASB has addressed them.

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INTERNATIONAL STANDARD ON REVIEW ENGAGEMENTS (NEW ZEALAND) 2400
REVIEW OF HISTORICAL FINANCIAL STATEMENTS PERFORMED BY AN ASSURANCE
PRACTITIONER WHO IS NOT THE AUDITOR OF THE ENTITY

Explanation of Decisions made by the NZAuASB in Finalising ISRE (NZ) 2400

Issued by the New Zealand Auditing and Assurance Standards Board

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BACKGROUND

1. The International Auditing and Assurance Standards Board (IAASB) started a project in June 2009 to revise ISRE 2400. After IFAC's due process, the revised ISRE 2400 was approved by the IAASB in June 2012 and issued in September 2012, following the approval and consideration of due process by the Public Interest Oversight Board. The New Zealand Review Standard was not previously aligned with the international equivalents and was in need of revision.
2. The NZAuASB issued an exposure draft ED 2013-1 on 7 February 2013 with a comment deadline of 17 May 2013, proposing to adopt ISRE 2400, together with New Zealand Standard on Review Engagements 2410, to supersede Review Standard 1.
3. The NZAuASB has applied its Principles of Convergence to International Standards of the International Auditing and Assurance Standards Board and Harmonisation with the standards of the Australian Auditing and Assurance Standards Board in the development of this standard for application in New Zealand, that is, only including additional requirements to the international requirements where there are compelling reasons to do so.

MAJOR ISSUES RAISED BY RESPONDENTS ON EXPOSURE

4. Five submissions were received from professional bodies, firms and the Office of the Auditor-General. Key issues raised in the submissions received included:
 - The period of time for the assessment of going concern proposed for New Zealand review engagements;
 - The requirement added in New Zealand for the assurance practitioner to obtain an understanding of internal controls; and
 - The need for the additional quality control requirements proposed for New Zealand review engagements.

HOW THE NZAuASB RESPONDED AND THE RATIONALE FOR AMENDMENTS MADE TO ISRE 2400

The period of time for the assessment of going concern

5. The NZAuASB has agreed that there is a compelling reason to extend the period to be considered by the assurance practitioner in evaluating the assessment of the entity's ability to continue as a going concern from 12 months from balance sheet date to at least 12 months from the date of the assurance practitioner's report. This has been extended in the same manner in the International Standards on Auditing (New Zealand).
6. The NZAuASB is strongly in favour of extending this time period, which is already consistent with practice in New Zealand and is considered to enhance assurance

quality. The NZAuASB notes that stakeholders are increasingly focused on assurance quality and the information value of the assurance report. The NZAuASB is concerned that in the current economic environment and given the period of time taken to prepare, approve and release an entity's financial statements, the minimum period of 12 months from the reporting date may be insufficient to meet current financial statement user's needs.

7. The NZAuASB considers that assurance quality would be significantly enhanced where the assurance practitioner's assessment of the going concern assumption covers, as a minimum, a period of at least 12 months from the date the review report is signed. This effectively recognises that the review is not complete until the assurance practitioner signs the review report, and as the assurance practitioner needs to be aware of any significant issues up until that point (including matters that may affect the appropriateness of the going concern assumption), it is reasonable, and in the public interest, that the assurance practitioner consider the appropriateness of this assumption up until the next time the review is formally signed off, which is at least 12 months from the date that the current review report is signed.

Understanding Internal Controls

8. The NZAuASB has agreed that there is a compelling reason to require the assurance practitioner to understand internal control, as it relates to the preparation of the financial statements, for all review engagements.
9. The NZAuASB notes that this does not require a comprehensive risk assessment as required by ISA (NZ) 315. Additional guidance has been added in paragraph NZA78.1 to clarify that in a review engagement, the assurance practitioner does not have a responsibility to evaluate the design of controls, to determine whether they have been implemented, or to evaluate their operating effectiveness. However, the assurance practitioner may make enquiries of management and others within the entity about the controls related to the entity's financial accounting and reporting systems in place during the financial reporting period that management believes may prevent, or detect and correct, material misstatements in the financial statements. Such enquiries may help the assurance practitioner to identify risks that are likely to result in material misstatement of the financial statements. The NZAuASB could not identify any examples where such an understanding should not be required.
10. The NZAuASB considers that an understanding of the entity's control environment is important to enable the assurance practitioner to apply professional judgement in designing and performing procedures that focus on areas in the financial statements where material misstatements are likely to arise. This requirement is scalable to cater for situations of performing reviews for smaller entities.

The need for additional quality control requirements

11. Engagement level quality control requirements were previously found in Professional and Ethical Standard (PES) 3. When PES 3 was amended, the NZAuASB agreed to remove the additional engagement level quality control requirements in order to conform more closely to the international equivalent, but proposed to add relevant engagement level quality control requirements to the review engagement standards where relevant.
12. ISRE 2400 includes engagement level quality control requirements at a relatively high level when compared to ISA 220 for an audit of financial statements. In particular the requirements do not cover: consultation, reviewing the work of staff performed on the engagement, documentation and the responsibilities of the engagement partner to form a conclusion on compliance with the independence requirements.
13. Four out of five submissions agreed with these additions. The NZAuASB has agreed that there are compelling reasons to retain the additional quality control requirements in ISRE (NZ) 2400 which are equally relevant to a review engagement and therefore should be explicitly required by the standard. To omit these additional requirements could result in a decline in the quality of a review engagement.

The existence of any relationship with the entity

14. The Review Report provides an independent assurance practitioner's conclusion. Given the importance of being and being seen to be independent, the NZAuASB considers that for transparency reasons it is appropriate for the assurance practitioner's report to include a statement as to the existence of any relationship (other than that of assurance practitioner) which the assurance practitioner has with, or any interests which the assurance practitioner has in, the entity or any of its subsidiaries. This has been added in the same manner in the International Standards on Auditing (New Zealand).

The Responsibilities of Those Charged with Governance

15. The NZAuASB considers that it is important for the assurance practitioner to 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. No changes have been made to the requirements of the standard, but the NZAuASB have added a paragraph to assist the assurance practitioner in applying the requirements and guidance on this matter in New Zealand.