

# A GUIDE TO UNDERSTANDING AUDITING AND ASSURANCE:

**FMC REPORTING ENTITIES IN NEW ZEALAND**

NOVEMBER 2019



CPA Australia Ltd ('CPA Australia') is one of the world's largest accounting bodies representing more than 164,000 members of the financial, accounting and business profession in 150 countries.

**ISBN: 978-0-6482918-9-3**

For information about CPA Australia, visit our website [cpaaustralia.com.au](http://cpaaustralia.com.au)

2019 Edition. First published in 2013 by

CPA Australia Ltd  
Level 20, 28 Freshwater Place  
Southbank VIC 3006  
Australia

#### **Legal Notice**

© CPA Australia Ltd, 2019.

All content in this guide ('the Guide') is proprietary or licensed to CPA Australia Ltd. The reproduction, adaptation, communication or sale of the Guide is strictly prohibited unless expressly permitted under Division 3 of the Copyright Act 1968 (Cth). For permission to reproduce any part of the Guide, please contact [legal@cpaaustralia.com.au](mailto:legal@cpaaustralia.com.au).

CPA Australia Ltd does not provide any warranties or make representations as to the accuracy, completeness, suitability or fitness for purpose of the Guide and accepts no responsibility for any acts or omissions made in reliance of the Guide. The Guide has been produced for reference purposes only and is not intended, in part or full, to constitute legal or professional advice. To the extent permitted by the applicable laws in your jurisdiction, CPA Australia Ltd (including its employees, agents and consultants) exclude all liability for any loss, damage, claim, proceeding and or expense including but not limited to legal costs, indirect special or consequential loss or damage, arising from acts or omissions made in reliance of the Guide. Where any law prohibits the exclusion of such liability, CPA Australia Ltd limits its liability to the resupply of the information within the Guide.

# TABLE OF CONTENTS

<b>FOREWORD</b>	<b>4</b>
<b>THE PURPOSE AND SCOPE OF AUDITS AND REVIEWS</b>	<b>5</b>
WHY ARE AUDITS AND REVIEWS REQUIRED?	5
WHAT DO USERS NEED TO UNDERSTAND ABOUT FINANCIAL STATEMENTS?	5
WHAT DOES ASSURANCE MEAN?	5
WHAT IS THE IMPACT OF THE LEVEL OF ASSURANCE?	6
WHAT IS AN AUDIT OF FINANCIAL STATEMENTS?	7
WHAT IS A REVIEW OF FINANCIAL STATEMENTS?	7
RELATIONSHIPS IN FINANCIAL REPORTING	7
WHAT IS THE ROLE OF THE AUDIT COMMITTEE?	8
WHAT INFORMATION IS AUDITED?	8
WHAT INFORMATION IS REVIEWED?	9
WHAT IS AUDITOR INDEPENDENCE?	9
<b>UNDERSTANDING WHAT EXTERNAL AUDITORS CAN PROVIDE</b>	<b>10</b>
DIFFERENCE BETWEEN INTERNAL AND EXTERNAL AUDIT	10
ASSURANCE ON NON-FINANCIAL INFORMATION	10
WHAT IS AUDIT QUALITY?	10
HOW CAN FINANCIAL STATEMENTS USERS ASSESS AUDIT QUALITY?	10
WHAT ROLE DO FMC REPORTING ENTITIES HAVE IN OBTAINING QUALITY AUDITS?	11
<b>THE AUDITOR'S REPORT</b>	<b>12</b>
UNMODIFIED AUDIT OPINIONS AND REVIEW CONCLUSIONS	12
WHAT DOES "PRESENT FAIRLY" MEAN?	12
BASIS FOR OPINION	12
KEY AUDIT MATTERS	13
EMPHASIS OF MATTER AND OTHER MATTER PARAGRAPHS	13
GOING CONCERN	13
OTHER INFORMATION	14
CONTENTS OF PARAGRAPHS FOR SPECIFIC MATTERS IN THE AUDITOR'S REPORT	15
HOW CAN YOU TELL IF THE AUDITOR'S REPORT IS CLEAN OR NOT?	16
DOES A CLEAN AUDITOR'S REPORT MEAN A CLEAN BILL OF HEALTH FOR THE ENTITY?	16
MODIFIED AUDITOR'S OPINIONS	17
BASIS FOR MODIFIED OPINION	17
<b>THE AUDIT AND REVIEW PROCESS</b>	<b>18</b>
WHAT DO AUDITORS AND REVIEWERS DO?	18
WHAT IS A MATERIAL MISSTATEMENT?	19
WHAT DO AUDITORS DO IF THEY FIND NON-COMPLIANCE WITH LAWS AND REGULATIONS?	19
WHAT DO AUDITORS DO WITH RESPECT TO FRAUD?	20
WHAT DO AUDITORS DO IN REGARD TO THE GOING CONCERN ASSUMPTION?	21
<b>APPENDIX 1 – GLOSSARY</b>	<b>22</b>
<b>APPENDIX 2 – EXAMPLE INDEPENDENT AUDITOR'S REPORT</b>	<b>23</b>

# FOREWORD

Auditing and assurance play an essential role in the effective operation of our capital markets and the economy at large, providing confidence to current and prospective shareholders and a range of other users about the information reported and disclosed by companies.

*A guide to understanding auditing and assurance: FMC Reporting Entities in New Zealand* explains in plain language the value and purpose of auditing and assurance. This will assist shareholders, investors and other readers of financial statements who are not experts in auditing and assurance to better understand the messages from the entity's auditor and make use of this information in their decision making.

Since first publication, the Guide has been recognised for its contribution to enhancement of financial literacy, across both New Zealand stakeholders and internationally. There have been some significant changes to the auditor's report since the previous edition, including the introduction of "Key Audit Matters" to improve the information value of the auditor's report to users. This Guide has been updated for all of the current requirements impacting the auditor's report.

In addition, it has been updated for changes to the auditor's responsibilities when conducting an audit engagement, including how the auditor responds to suspected or identified non-compliance with laws and regulations, and highlights the directors' role in supporting audit quality.

This Guide has been produced in fulfilling CPA Australia's objective to serve the public interest and was developed as an initiative of the External Reporting Centre of Excellence of CPA Australia.



**Merran Kelsall FCPA**

Deputy President  
CPA Australia Ltd

# THE PURPOSE AND SCOPE OF AUDITS AND REVIEWS

## WHY ARE AUDITS AND REVIEWS REQUIRED?

Shareholders of **FMC reporting entities**<sup>1</sup> are usually quite separate from those managing and governing the companies they own.<sup>2</sup> They need a reliable and independent source of financial information on which to assess the entity, and the performance of management and those charged with governance. It is the same for other stakeholders of companies, such as creditors, lenders, employees, analysts, prospective shareholders, regulators, governments and communities. Audits and reviews enhance the credibility of the information contained within the **financial statements**,<sup>3</sup> comprising: the financial statements and notes to the financial statements, to enable shareholders and other stakeholders to make assessments and decisions, such as investing, divesting, lending or contracting with the entity, with confidence and on a consistent basis.

Audits of each FMC reporting entity’s financial statements are required annually.

## WHAT DO USERS NEED TO UNDERSTAND ABOUT FINANCIAL STATEMENTS?

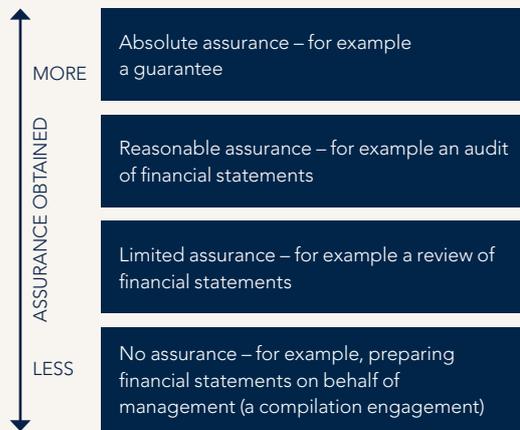
Auditors consider the information needs of users of financial statements when determining what is important (material) to those users, which drives what the auditor will focus on. It is reasonable for the auditor to assume that users of the financial statements:<sup>4,5</sup>

- a) Have a reasonable knowledge of business, economic activities and accounting, as well as a willingness to study the information in the financial statements with reasonable diligence;
- b) Understand that the financial statements are prepared, presented and audited to levels of materiality;
- c) Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- d) Make reasonable economic decisions on the basis of the information in the financial statements.

## WHAT DOES ASSURANCE MEAN?

The term **assurance** refers to the expression of a conclusion by an **assurance practitioner** that is intended to increase the confidence that users can place in a given subject matter. An audit is a form of assurance engagement which provides an opinion giving **reasonable assurance** on financial statements. An auditor is an assurance practitioner who conducts an audit. Therefore, an **auditor’s report** provides a conclusion that increases the confidence that users can place in an entity’s financial statements. There are differing levels of **assurance** which result in different types of conclusions, depending on the type of work that the assurance practitioner performs.

The following diagram illustrates different levels of assurance, in some of the different activities performed by accountants:



<sup>1</sup>As defined in s.451 of the *Financial Markets Conduct Act 2013*, see Glossary. <sup>2</sup>This guide refers to audits and reviews of an FMC reporting entity’s financial statements. The concepts of audit and review are also applicable to other types of entities such as private companies, companies limited by guarantee and public sector entities. <sup>3</sup>Financial statements under the FMC Act are the statements and notes required to be prepared by an applicable financial reporting standard or a non-GAAP standard, in relation to a reporting entity and a balance date. Accounting standards issued by the NZ Accounting Standards Board of the NZ External Reporting Board (XRB) and are the primary indicators of generally accepted accounting practices (GAAP) in New Zealand. <sup>4</sup>See CPA Australia’s *A Guide to Understanding Annual Reports: New Zealand Listed Companies*. <sup>5</sup>Source: ISA (NZ) 320 *Materiality in Planning and Performing the Audit*, paragraph 4.

## WHAT IS THE IMPACT OF THE LEVEL OF ASSURANCE?

Type of assurance	For example	Nature of key work performed	Example form of conclusion
<b>Reasonable assurance</b>	An audit of <b>financial statements</b>	Gathering of sufficient appropriate audit evidence based on an assessment of risk and materiality to support the auditor's opinion.	In our opinion the accompanying financial statements <b>present fairly</b> , in all material respects (or give a true and fair view of), the financial position of the entity as at year end and of its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board. <sup>6</sup> (This is commonly referred to as positive assurance.)
<b>Limited assurance</b>	A review of half-year financial statements	Primarily enquiries and analytical review, with less detailed procedures, based on an assessment of risk and materiality to support the auditor's conclusion.	Based on our review, nothing has come to our attention that causes us to believe that these financial statements do not present fairly, in all material respects, the financial position of the entity as at year end, and of its financial performance and cash flows for the six months then ended, in accordance with NZ IAS 34 <i>Interim Financial Reporting</i> issued by the New Zealand Accounting Standards Board. <sup>7</sup> (This is commonly referred to as negative assurance.)
No assurance	<ul style="list-style-type: none"> <li>• Preparing financial statements (compilation engagement)</li> <li>• Agreed-upon procedures</li> </ul>	<ul style="list-style-type: none"> <li>• Preparation of the financial statements</li> <li>• Performing an agreed set of procedures</li> </ul>	<ul style="list-style-type: none"> <li>• No conclusion provided</li> <li>• Factual findings from performing the procedures reported but no opinion (either positive or negative) is provided to the users on the work that has been undertaken.</li> </ul>

<sup>6</sup>International Standard on Auditing (New Zealand) ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* provides the requirements for the auditor's report.

<sup>7</sup>New Zealand Standard on Review Engagements NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* provides the requirements for the review report.

### WHAT IS AN AUDIT OF FINANCIAL STATEMENTS?

An audit of an **FMC reporting entity's financial statements** is a **reasonable assurance** engagement where the auditor provides an opinion about whether the financial statements are presented fairly, in all material respects the financial position of the entity at year end, and of its financial performance for the period ended on that date, and complying with New Zealand **accounting standards**. Full-year financial statements of FMC reporting entities are required by law to be audited. Many other types of entities are also required to have their financial statements audited, including non-FMC reporting entities over a certain size threshold and large charities.

While the reasonable assurance obtained in an audit is a high level of **assurance**, it is not absolute assurance (that is, it is not a certification that the financial statements are completely correct).

Obtaining absolute assurance is not possible in financial statement audits for a number of reasons, including:

- It would be impractical for the auditor to test and audit every transaction or balance.
- Preparation of the financial statements involves judgements and estimates by management and may be contingent on future events, which means that valuation of assets or liabilities in the financial statements often cannot be determined precisely.

### WHAT IS A REVIEW OF FINANCIAL STATEMENTS?

A review of a half-year set of financial statements, referred to as interim financial statements in the accounting standards<sup>8</sup> is a **limited assurance** engagement where the auditor provides a conclusion to the users of the financial statements as to whether the auditor has become aware of any matter that makes them believe that the interim financial statements are not presented fairly, in all material respects, in accordance with New Zealand Accounting Standard IAS 34 *Interim Financial Reporting*.

FMC reporting entities half-year financial statements are usually audited or reviewed by the same auditor that conducts the audit of the financial statements at year end.

### RELATIONSHIPS IN FINANCIAL REPORTING

The following diagram illustrates the relationship between shareholders and other stakeholders, management,<sup>9</sup> those charged with governance and the auditor. Those charged with governance are those responsible for overseeing the strategic direction and accountability obligations of the entity, including the financial reporting process. In FMC reporting entities this includes the board of directors, which may include some executive members, and members of the audit committee.

In New Zealand, the independent auditor will almost always be present at an FMC reporting entity's Annual General Meeting and they are available to answer questions from interested parties that are entitled to participate in the meeting, such as shareholders. This is a useful opportunity for shareholders to clarify specific aspects of the audit.



<sup>8</sup>NZ IAS 34 *Interim Financial Reporting*  
<sup>9</sup>NZX listing rules.

### WHAT IS THE ROLE OF THE AUDIT COMMITTEE?

The New Zealand Stock Exchange (NZX) requires<sup>10</sup> issuers to have an audit committee, which is a sub-committee of the board of directors. The audit committee is responsible,<sup>11</sup> at a minimum, for:

- ensuring that the board is properly and regularly informed and updated on corporate financial matters;
- recommending the appointment and removal of the independent auditor;
- meeting regularly to monitor and review the independent and internal auditing practices;
- having direct communication with and unrestricted access to the independent auditor and any internal auditors or accountants;
- reviewing the financial reports and advising all directors whether they comply with the appropriate laws and regulations; and
- ensuring that the key audit partner is changed at least every five years.

Consequently, the audit committee arranges the appointment of the auditor, which is then confirmed by the members at the annual general meeting (AGM). The audit committee typically meets with the auditor a number of times during the year to discuss details such as scheduling, risks, financial reporting issues, the auditor’s findings, matters to be included as “Key Audit Matters” in the **auditor’s report** and other matters relevant to the audit of the **financial statements**. At the conclusion of the audit, the auditor often provides a more detailed, in-depth confidential report to the audit committee.

Audit committees also oversee the corporate reporting processes, internal control framework, the preparation of financial statements, including the appropriateness of the accounting judgements or choices exercised by management in preparing those financial statements, and the internal audit function.

### WHAT INFORMATION IS AUDITED?

Only certain sections of an entity’s annual report are audited. The auditor’s report provides an opinion on the financial statements, which comprises the financial statements and the notes to the financial statements. The auditor’s report does not provide an opinion on the directors’ report or other information in the annual report.

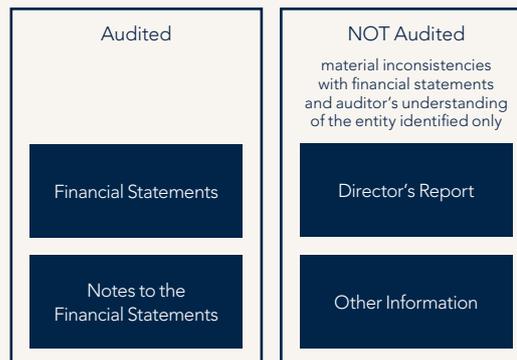
As information in the directors’ report is intended to complement and support the financial statements, it may appear to be part of the audited financial information and may also include non-GAAP (Generally Accepted Accounting Principles) measures, which is financial information not prepared in accordance with the **accounting standards**.

Although the information provided in the directors’ report is not audited, the auditor still needs to consider and report on whether it contains material inconsistencies with the financial statements, or knowledge gained through the audit, or appears to be materially misstated. This provides some comfort to shareholders. See section on “The Auditor’s Report - Other Information”.<sup>12</sup>

The financial statements may be published as part of an integrated report,<sup>13</sup> which addresses how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term, by reporting on inputs, outputs and outcomes in relation to six capitals, of which financial capital is just one. The financial statements may also be presented with other information in the annual report or with other reports which are prepared voluntarily by the entity, such as a sustainability report.<sup>14</sup>

Users need to take care to understand which parts of those reports and information have been audited or assured by referring to the scope and opinion of the auditor’s report or reports, in assessing the extent to which they choose to rely on that information.

### Annual Report



<sup>10</sup>NZX listing rules. <sup>11</sup>NZX Corporate Governance Code. <sup>12</sup>ISA (NZ) 720 *The Auditor’s Responsibilities Relating to Other Information* requires the auditor to obtain the final version of the annual report, if possible before signing their report, and consider if there is any material inconsistency with the financial statements or the knowledge they obtained on the audit.

<sup>13</sup>Integrated Reports are prepared using the International Integrated Reporting (<IR>) Framework issued by the International Integrated Reporting Council (IIRC).

<sup>14</sup>Sustainability Reports may be prepared using, for example, the Global Reporting Initiative (GRI) framework.

## WHAT INFORMATION IS REVIEWED?

Interim **financial statements** for the half-year are required to be issued by listed **FMC reporting entities**, however, in contrast with Australia, the interim financial statements of listed companies in New Zealand are not required to be audited or reviewed. The work conducted in a review is primarily comprised of making enquiries of persons responsible for financial and accounting matters and performing analytical procedures, and so the scope of a review is substantially less than the scope of an audit.

## WHAT IS AUDITOR INDEPENDENCE?

Independence is the cornerstone of the auditing profession. An independent auditor is free from external influence or bias and is therefore able to maintain integrity, make objective judgements and exercise appropriate professional scepticism during the audit. Auditors must comply with the *Code of Ethics for Assurance Practitioners (New Zealand) PES 1 (Revised)* including maintaining independence of mind and appearance, meaning that auditors must not only act independently, but also be seen to be independent. These requirements are more onerous for public interest entities, including FMC reporting entities.

Many of the laws, regulations and professional standards applicable to audits, such as those in the *Financial Markets Conduct Act 2013 (FMC Act)*, and PES 1 (Revised) set out independence requirements that auditors of relevant companies need to meet.

For **FMC reporting entities considered to have a higher level of public accountability** in New Zealand, there are additional requirements including:

- Rotation of the lead and review auditor every seven years and for listed issuers every five years,<sup>15</sup> with:
  - o five year cooling off period (where the auditor does not participate in the audit in any way or directly influence the outcome of the engagement) for lead auditors
  - o three year cooling off period for review auditors.
- Restrictions on an auditor holding board positions or employment at companies they have audited.
- Prohibition on the auditor assuming management responsibility related to the financial statements or other subject matter of the audit or review.
- Prohibitions<sup>16</sup> on the provision of certain services to audit clients which are FMC reporting entities considered to have a higher level of public accountability, where those services are material to the financial statements, such as:
  - o accounting and bookkeeping services, including payroll services, or preparing financial statements
  - o valuation services
  - o preparing tax calculations of current and deferred tax liabilities (or assets)
  - o internal audit services
  - o designing or implementing IT systems
  - o recruiting services for a director, officer or senior management.
- Limitation of fees from the entity and related entities to no more than 15% of total fees received by the firm over two consecutive years.

<sup>15</sup>See NZX Listing Rule 2.13.

<sup>16</sup>See PES 1 (Revised) which imposes requirements on audits of public interest entities, defined as those entities meeting the tier 1 criteria XRB A1 *Application of the Accounting Standards Framework*. FMC reporting entities that is considered to have a higher level of public accountability are deemed to be tier 1.

# UNDERSTANDING WHAT EXTERNAL AUDITORS CAN PROVIDE

## DIFFERENCE BETWEEN INTERNAL AND EXTERNAL AUDIT

Internal audit is an appraisal activity which may be established within the **FMC reporting entity** and functions usually under the oversight of the entity's audit committee. It is a management tool and forms part of the entity's internal control structure. In general, the main focus of an internal audit is to evaluate the adequacy and effectiveness of the entity's internal control.

In contrast, under the FMC Act, an external audit is required to be undertaken by a licensed auditor who is independent of the entity, to express an opinion on the annual **financial statements** and, if required, an opinion (audit) or conclusion (review) on the half-year financial statements. The FMC Act requires the audit of FMC reporting entities' annual financial statements to be performed in accordance with New Zealand **auditing and assurance standards**.

## ASSURANCE ON NON-FINANCIAL INFORMATION

Audit is a form of **assurance** providing **reasonable assurance** on financial information. Assurance may provide either reasonable or **limited assurance** on a wide and expanding range of subject matters. Assurance reports can provide stakeholders with confidence in subject matters ranging from:

- compliance with legislation and regulations, such as licence conditions under the FMC Act or the Reserve Bank of NZ Prudential requirements
- integrated reports under the <IR> Framework
- sustainability reports under the GRI Framework
- product disclosure statements.
- design, implementation and operating effectiveness of controls.

## WHAT IS AUDIT QUALITY?

Audit quality is challenging to define, measure and observe as most of the valuable work auditors do happens before a FMC reporting entity's financial statements are released to the public (see also "What do auditors do?"). The International Auditing and Assurance Standards Board (IAASB) has issued a Framework for Audit Quality which says:

"Audit quality encompasses the key elements that create an environment which maximises the likelihood that quality audits are performed on a consistent basis."

## HOW CAN FINANCIAL STATEMENT USERS ASSESS AUDIT QUALITY?

As audit quality is difficult to measure and evaluate, shareholders and other stakeholders largely rely on the Board and audit committee to satisfy themselves that the auditor provides sufficient audit quality to give confidence in the **auditor's report**. Sources of information which may be useful in assessing the audit include:

- Financial Markets Authority (FMA) audit quality monitoring report, published annually, summarising findings from monitoring of licenced auditors, who are all subject to quality review at least once every four years
- answers to questions at the AGM about:
  - o reasoning for the key audit matters identified and outcomes of the procedures conducted;
  - o whether the entity's audit was reviewed by the FMA in their audit inspections and, if so, what the outcomes were;
  - o any modification to the auditor's report; and
  - o any Emphasis of Matter, Other Matter or Material Uncertainty relating to Going Concern paragraphs.
- information included in the key audit matters, including whether they are relevant to the entity rather than boiler plate.

## WHAT ROLE DO FMC REPORTING ENTITIES HAVE IN OBTAINING QUALITY AUDITS?

Auditors are ultimately responsible for performing quality audits, however the IAASB's *Framework for Audit Quality* recognises the importance of the contribution and support of regulators, audited companies and other stakeholders in achieving quality audits that support reliable **financial statements** in the capital markets. The quality of financial reporting by the entity can have a significant impact on the effectiveness of the audit. Directors and audit committees have an important role in ensuring the **FMC reporting entity** provides a sound basis for a quality audit, including having appropriate governance arrangements, and processes and controls. The directors are responsible for the financial statements and need to be cognisant of their own responsibilities when assessing the information in the financial statements so that they challenge the accounting treatments, seek explanations and professional advice appropriately, rather than relying on the external auditor.

The directors must take reasonable steps to comply with, or secure compliance with, the financial reporting and audit requirements of the FMC Act,<sup>17</sup> including keeping accounting records that correctly record the transactions of the FMC reporting entity, ensuring that the financial statements comply with generally accepted accounting practice and any prescribed requirements, enabling the financial statements to be readily and properly audited, and establishing and maintaining a satisfactory system of control of its accounting records.

Directors need to read and understand the financial statements, in order to ensure that the information they contain is consistent with the directors' knowledge of the entity's financial position and affairs, and ensure that material matters known to the directors, or that should be known to them, are not omitted.

The FMA provides guidance explaining the influence directors have over audit quality in the *FMA Guide: Audit quality – a director's guide* published annually, that can be found on its website.

<sup>17</sup>See FMC Act s.455.

# THE AUDITOR'S REPORT

## UNMODIFIED AUDIT OPINIONS AND REVIEW CONCLUSIONS

The **auditor's report** contains the auditor's opinion on the **financial statements**, in addition to a range of other information to explain the context in which that opinion has been reached. A **review report** contains the auditor's conclusion on the interim financial statements, which provides a lower level of **assurance** than an opinion, and also explains the context in which that conclusion was reached.

An unmodified auditor's opinion for **FMC reporting entities** states that in the auditor's opinion the financial statements are prepared in accordance with the Part 7 of the FMC Act, which mirrors essentially what is contained in the *Financial Reporting Act 2013*. This is often referred to as a "clean" or "unmodified" audit opinion.

Auditor's reports containing an unmodified auditor's opinion are the most common type of report a user is likely to come across. This is in part because management usually addresses most of the matters which the auditor has raised by adjusting the financial information or including further disclosures when finalising the content of the financial statements before they are issued.

Likewise, an unmodified review conclusion for an FMC reporting entity's interim financial statements, effectively states that the auditor has not become aware of any matter that makes them believe that the half-year financial statements do not **present fairly**, in all material respects, the financial position and financial performance of the entity.

### Illustrative Auditor's Report

Appendix 2 contains an illustrative example of an auditor's report, providing an unmodified opinion, with an explanation of each section

## WHAT DOES "PRESENT FAIRLY" MEAN?

Financial statements which "present fairly" are those which present a complete and unbiased picture of the entity's financial performance and position. This type of opinion is provided under a **fair presentation framework**, in which simply complying with the requirements of the financial reporting framework is not enough. A fair presentation framework also requires management to provide disclosures beyond those specifically required by the reporting framework, being the New Zealand **Accounting Standards** or, in rare circumstances, depart from a requirement of that framework.

## BASIS FOR OPINION

The auditor's report includes a basis for opinion paragraph, which provides important context about the auditor's opinion that:

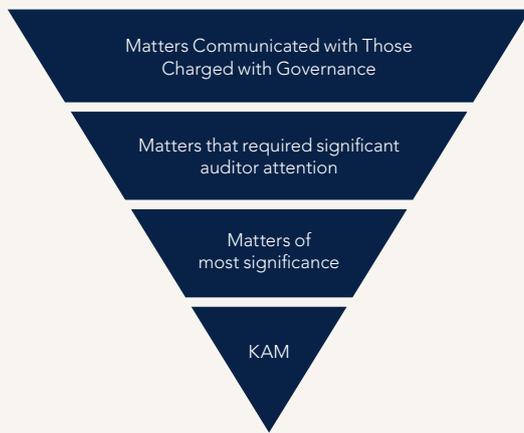
- states that the audit was conducted in accordance with International Standards on Auditing (New Zealand) (ISA (NZ)s) issued by the New Zealand Auditing and Assurance Standards Board;
- refers to the section of the auditor's report that describes the auditor's responsibilities under the ISA (NZ)s;
- includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements and has fulfilled the auditor's other ethical responsibilities;
- confirms the auditor's independence; and
- states whether the auditor believes that the audit evidence they obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

When the auditor modifies the opinion on the financial statements, the heading 'Basis for Opinion' is amended in accordance with the type of modified opinion (see *Modified auditor's opinions* below) and within this section, the auditor includes a description of the matter giving rise to the modification.

## KEY AUDIT MATTERS

Auditors of **FMC reporting entities** that have a higher level of public accountability<sup>18</sup> are required under the International Standards on Auditing (New Zealand) (ISA (NZ)s)<sup>19</sup> to report “key audit matters” (KAM). Those are matters which were, in the auditor’s professional judgement, of most significance in the audit.

KAM are selected from matters communicated with the directors or audit committee that required significant auditor attention in performing the audit. KAM may include areas of higher assessed risk of **material misstatement** or significant risks and significant auditor judgements relating to areas of significant management judgement.



The KAM section includes, at a minimum:

- why the matter was considered to be a KAM
- reference to the related disclosure
- how the matter was addressed in the audit.

Standardised wording, which is used in the rest of the **auditor’s report**, is not used in the KAM and the auditor needs to present the KAM in their own style and format.

Some auditors include additional information in their report, such as:

- the materiality benchmark, value or percentage applied
- the scope of the audit, which may include how materiality and KAMs influenced the scope
- the outcomes of the audit procedures in response to KAMs.

The provision of this additional information is voluntary to assist users in better understanding the auditor’s work. It may be provided because of their firm’s policy to ensure consistency in their auditor’s reports across jurisdictions.

## EMPHASIS OF MATTER AND OTHER MATTER PARAGRAPHS

In some circumstances, the auditor will include additional wording in the auditor’s report directing users to information that is not included in KAM, but in their view is fundamental to understanding the **financial statements**. This may be either:

- an “Emphasis of Matter” paragraph drawing the readers’ attention to matters included in the financial statements, such as a note disclosure; or
- an “Other Matter paragraph” which draws the readers’ attention to matters that are not included in the financial statements.

It is important to note that an Emphasis of Matter or Other Matter paragraph is not a modification to the auditor’s opinion (see Modified auditor’s opinions below).

## GOING CONCERN

If a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity’s ability to continue as a **going concern**, either:

- the auditor’s report includes a section ‘Material Uncertainty Related to Going Concern’ if the uncertainty is adequately disclosed in the financial statements; or
- the auditor issues a qualified or adverse opinion (see Modified auditors’ opinions below) if the financial statements do not adequately disclose the matter.

The auditor is required to challenge the adequacy of disclosures for ‘close calls’, when an event or condition casts a significant doubt on the entity’s ability to continue as a going concern, but due to mitigating circumstances the entity concluded that no material uncertainty exists, so the financial statements can be prepared on a going concern basis. The going concern basis is used when the entity is expected to continue in business without the threat of liquidation for the foreseeable future, which management is required to assess for at least the next 12 months, after the end of the reporting period.<sup>20</sup>

<sup>18</sup>See Glossary for definition of FMC reporting entities that have a higher level of public accountability, as described in section 461K of the FMC Act, which include listed issuers.

<sup>19</sup>ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting on a Financial Statements* requires key audit matters to be communicated and ISA (NZ) 701 *Communicating Key Audit Matters in the Independent Auditor’s Report* specifies what to communicate in the auditor’s report and the form and content of such communication.

<sup>20</sup>NZ IAS 1 *Presentation of Financial Statements*, paragraph 26

## OTHER INFORMATION

Although the auditor is not responsible for auditing other information in the annual report, which is not in the **financial statements**, they are required to read the other information and consider whether there is a material inconsistency between that other information and either the financial statements or the auditor's knowledge obtained in the audit.<sup>21</sup>

If the entity refuses to correct a material inconsistency, the auditor describes the inconsistency in an 'Other Information' section of the **auditor's report**. If the auditor's report has already been issued, then the auditor must bring the inconsistency identified to the users' attention by other means.

<sup>21</sup>ISA (NZ) 720 *The Auditor's Responsibilities Relating to Other Information*.

**CONTENTS OF PARAGRAPHS FOR SPECIFIC MATTERS IN THE AUDITOR'S REPORT**

Type of assurance	Matters included
Key Audit Matters	<p>Matters which required significant auditor attention, selected from matters communicated with those charged with governance, which may include:<sup>22</sup></p> <ul style="list-style-type: none"> <li>• areas of higher assessed risk of <b>material misstatement</b>, or significant risks, such as areas of significant management judgement or significant unusual transactions</li> <li>• significant auditor judgements relating to areas in the <b>financial statements</b> that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty and accounting policies inconsistent with the industry that have a significant effect on the financial statements</li> <li>• the effect on the audit of significant events or transactions with related parties or that are outside the normal course of business for the entity or that otherwise appear to be unusual, that may have required management to make difficult or complex judgements in relation to recognition, measurement, presentation or disclosure.</li> </ul>
Emphasis of Matter	<p>Matters which have been appropriately disclosed in the financial statements and are not included in KAM, which represent:</p> <ul style="list-style-type: none"> <li>• an uncertainty relating to the future outcome of exceptional litigation or regulatory action</li> <li>• a significant subsequent event that occurs before the <b>auditor's report</b> is signed</li> <li>• early application of a new accounting standard that has a material effect on the financial statements</li> <li>• a major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.</li> </ul>
Other Matter	<p>Matters which are not, and are not required to be, reported in the financial statements and are not included in KAM, which law or regulation requires to be reported or the auditor considers it necessary to communicate, such as:</p> <ul style="list-style-type: none"> <li>• the planned scope of the audit</li> <li>• the application of materiality in the context of the audit</li> <li>• an explanation in the rare circumstances where it is not possible for the auditor to withdraw from the engagement despite a pervasive limitation of scope imposed by management</li> <li>• that other financial statements have been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements</li> <li>• that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties, if the auditor's report is intended to meet the information needs of specific users</li> <li>• if management amends the financial statements and a new auditor's report is issued, reference to the note in the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier financial statements provided by the auditor</li> <li>• if the financial statements of the prior period were audited by a predecessor auditor, details of that auditor's report, or if they were unaudited, the fact that the comparative figures are unaudited.</li> </ul>
Material Uncertainty relating to Going Concern	<p>A section in an auditor's report, containing an unmodified opinion, about a material uncertainty relating to going concern which the entity has adequately disclosed in the financial statements. This section:</p> <ul style="list-style-type: none"> <li>• draws attention to the note in the financial statements that discloses the relevant events or conditions that give rise to the uncertainty and management's plans to deal with those events or conditions</li> <li>• states that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern but that the auditor's opinion is not modified.</li> </ul>
Other information	<p>A section which:</p> <ul style="list-style-type: none"> <li>• identifies other information contained in the annual report which is not audited, such as the directors' report, a corporate governance report and any voluntary reporting such as the component elements of an integrated report or sustainability report</li> <li>• identifies whether that other information was obtained prior to the date of the auditor's report or is expected to be received afterwards</li> <li>• describes any uncorrected material misstatement in the other information if information included in an annual report is inconsistent with the audited financial statements.</li> </ul>

<sup>22</sup>For examples of key audit matters see IAASB website: <https://www.iaasb.org/publications-resources/auditor-reporting-illustrative-key-audit-matters>

## HOW CAN YOU TELL IF THE AUDITOR'S REPORT IS CLEAN OR NOT?

To determine if an **auditor's report** is "clean" or whether it has been modified, you need to look at the opinion section at the top of the auditor's report. An unqualified or clean auditor's report will state that in the auditor's opinion the financial statements are presented fairly, in all material respects, in accordance with New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**).

If the audit opinion is modified, it can be either:

- **Qualified opinion:** a clean opinion is provided "except for" the matter identified.
- **Disclaimer:** the auditor cannot provide an opinion because the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for that opinion.
- **Adverse opinion:** because of the significance of the matter, the financial statements are not presented fairly, in all material respects, in accordance with NZ IFRS (see also "Modified auditor's opinions").

Even where there is a clean opinion, it is important to look for and pay attention to the Key Audit Matters raised and any Emphasis of Matter, Other Matter or Material Uncertainty relating to **Going Concern** paragraphs, which can each highlight matters of significance contained in the financial statements.

## DOES A CLEAN AUDITOR'S REPORT MEAN A CLEAN BILL OF HEALTH FOR THE ENTITY?

Auditor's reports are intended to increase the degree of confidence users have in the information in the financial statements. It is not about the soundness of the business strategies, its future viability or whether it is a safe investment.

An unmodified auditor's opinion means investors or other stakeholders can assess the entity based on its financial statements with more confidence that the information is materially correct and unbiased, than if the report was modified or if there was no auditor's report.

Auditors assess the appropriateness of the going concern assumption underpinning the preparation of the financial statements, but this cannot be taken as a conclusion on the future prospects of the entity nor does it reflect the business risks which could impact the entity's financial performance and outcomes (see "What do auditors do in regard to going concern?").

**MODIFIED AUDITOR’S OPINIONS**

Modified auditor’s opinions are issued when the auditor believes the **financial statements** contain a **material misstatement**, or when the auditor is unable to obtain enough evidence to form an opinion. A modified opinion should be a red flag for readers, as it indicates that part or all of the financial statements cannot be relied upon. The following table sets out the different types of modified auditor’s opinions that may be issued in these situations.

**BASIS FOR MODIFIED OPINION**

The basis for modified opinion section provides greater clarification to the reader of the **auditor’s report** about why the auditor expressed a modified opinion. The basis for a qualified opinion due to a misstatement or an adverse opinion describes the misstatement by either quantifying the financial effects of the misstatement, explaining how qualitative disclosures are misstated or by describing the nature of any omitted information and including the omitted disclosures. The basis for a qualified opinion due to insufficient evidence, or a disclaimer provides the reasons for the auditor’s inability to obtain sufficient appropriate audit evidence.

Type of modified audit opinion	Description for FMC Reporting Entity entities	Situations where this type of report may be issued	Examples
Qualified or “except for” opinion	The opinion states the financial statements are presented fairly, in all material respects, in accordance with NZ IFRS except for the effect of a specific matter or matters.	A qualified opinion is issued when a specific part of the financial statements contains a material misstatement or adequate evidence cannot be obtained in a specific, material area, but the rest of the financial statements are found to fairly present the financial position, financial performance and cash.	The auditor has a different view on the valuation of a material asset than that applied by management in the financial statements but the rest of the financial statements were found to be free of material misstatements.
Disclaimer of opinion	The auditor does not express an opinion on the financial statements because of the significance of the matters described. They are unable to obtain sufficient appropriate audit evidence to provide a basis for an opinion.	A disclaimer of opinion is very rarely issued as it indicates that either: <ul style="list-style-type: none"> <li>the auditor cannot obtain sufficient appropriate audit evidence on which to base an opinion on the financial statements overall and the possible effects on the financial statements could be both material and pervasive; or</li> <li>the auditor cannot form an opinion due to the cumulative effect on the financial statements of potential interaction of multiple uncertainties.</li> </ul>	The entity’s financial reporting information system was corrupted and key data was lost, so that sufficient appropriate evidence is not available to support all of material disclosures in the financial statements.
Adverse opinion	The opinion states that the auditor believes the financial statements are not presented fairly in accordance with <b>NZ IFRS</b> .	An adverse opinion is issued when the auditor identifies misstatements which are both material and pervasive to the financial statements.	The auditor believes that due to a significant economic downturn, a credit provider’s management has inadequately provided for impairment of the entity’s loan portfolio which represents a very significant proportion of their assets. The auditor believes that the financial assets are overstated, so the financial statements are materially misstated.

# THE AUDIT AND REVIEW PROCESS

## WHAT DO AUDITORS AND REVIEWERS DO?

The audit or review of a full or half-year **financial statements**, respectively, is a systematic process designed to identify instances of **material misstatement** in that report. *The FMC Act*<sup>23</sup> requires audits to be conducted in accordance with the all applicable **auditing and assurance standards**, which are issued by the New Zealand Auditing and Assurance Standards Board of the NZ External Reporting Board (XRB) and comprise a suite of standards for audits of financial statements and a single standard for reviews of half-year or other interim financial statements.

These standards closely follow the international auditing and assurance standards so that what an auditor is required to do is consistent across jurisdictions.

The following diagram illustrates at a very high level what is involved in financial statement audits and reviews, and the order in which activities usually take place during the year:



<sup>23</sup>FMC Act s.461D requires the FMC reporting entities’ financial statements to be audited by a licenced auditor or registered audit firm and s.461F requires the audit to comply with the auditing and assurance standards issued by the XRB.

**WHAT IS A MATERIAL MISSTATEMENT?**

An auditor is only concerned with identifying **material misstatements**, rather than any misstatement in the **financial statements**. Material misstatements are those that are significant enough to affect the decisions made by the users of the financial statements. This can be in terms of the quantitative or qualitative significance of misstatements.

<b>Quantitative</b>	<p>The quantities or dollar amounts in the financial statements. For example, quantitatively material misstatements could include:</p> <ul style="list-style-type: none"> <li>• Impairment of assets</li> <li>• Overstating revenue</li> <li>• Missing/not recorded liabilities</li> <li>• Understating expenses</li> </ul>
<b>Qualitative</b>	<p>The nature of items in the financial statements. For example, qualitatively material misstatements could include:</p> <ul style="list-style-type: none"> <li>• Not disclosing certain related party transactions</li> <li>• Not disclosing management’s remuneration</li> </ul> <p>These disclosures are important in evaluating how the entity has been managed, although they may be small quantitatively in comparison to the scale of the entity’s overall operations.</p>

**WHAT DO AUDITORS DO IF THEY FIND NON-COMPLIANCE WITH LAWS AND REGULATIONS?**

If an auditor suspects or discovers non-compliance with laws or regulations, other than those which are inconsequential, they must take action and cannot turn a blind eye. Whether the non-compliance is by the entity’s staff, management or external parties, auditors must respond in a timely way so that the adverse consequences to stakeholders and the general public are rectified, remediated or mitigated.

The auditor needs to be satisfied that the entity has taken appropriate and timely action to address the consequences and deter further non-compliance, or the entity has disclosed the matter to an appropriate authority where required by law or regulation or where necessary in the public interest. If not, auditors are required to follow an escalation process, initially through an appropriate level of management.

If the entity’s response is inadequate, management is involved or there will be actual or potential substantial harm to stakeholders or the general public, the auditor must take further action. This may warrant disclosing the matter to an appropriate authority, even if not required by law, and/or withdrawing from the engagement. Disclosure to an appropriate authority is not considered a breach of the duty of confidentiality if the auditor is acting in good faith.

## WHAT DO AUDITORS DO WITH RESPECT TO FRAUD?

The independent auditor must consider the possibility that fraudulent activities can result in **material misstatement** in the **financial statements** and take this into account in planning and performing their work.

Fraud, under the **auditing and assurance standards**,<sup>24</sup> is an intentional act by one or more individuals among management, those charged with governance, employees or third parties, involving the use of deception to obtain unjust or illegal advantage.

An audit is not an investigation intended to uncover all instances of fraud. However, an auditor is required to treat fraud risks as a significant risk and must obtain an understanding of the entity's related controls. Therefore, an audit is only likely to detect instances of fraud that result in material misstatement, although there is no guarantee that an audit will detect any material frauds perpetrated against the entity due to the nature of fraud.

As fraud is usually coupled with some form of concealment or deception, the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. Fraudsters may employ forgery, deliberately fail to record transactions, or make misrepresentations to the auditor, which may be even more difficult to detect when accompanied by collusion. The auditor's ability to detect a fraud depends on factors such as the skill of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. In addition, frauds which are not material to the financial audit are unlikely to be detected by the external auditor.

<sup>24</sup>See ISA (NZ) 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

## WHAT DO AUDITORS DO IN REGARD TO THE GOING CONCERN ASSUMPTION?

The **going concern** assumption is that an entity will continue in business for the foreseeable future. The going concern assumption has a significant impact on how an entity's **financial statements** are presented (see "If going concern doesn't apply").

In preparing the financial statements, management assesses whether the entity will be able to continue in business for the foreseeable future, which is at least twelve months from the end of the reporting period. The financial statements include the directors' opinion about whether there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable.

The auditor performs work to evaluate the appropriateness of management's use of the going concern basis of accounting as part of the audit. The auditor considers a period of approximately twelve months from the date of signing the auditor's current report to the expected date of the next **auditor's report** on the corresponding half-year or annual financial statements. As the directors' assessment of going concern is only required to cover twelve months from the end of the reporting period, the auditor must request management to extend its assessment period to correspond to the relevant period used by the auditor.<sup>25</sup>

The auditor:

- evaluates management's assessment of the entity's ability to continue as a going concern, including whether it reflects all relevant information of which the auditor is aware as a result of the audit;
- concludes on the appropriateness of management's use of the going concern basis of accounting;
- concludes on whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- determines whether the financial statements adequately disclose any material uncertainty.

The going concern assumption involves judgements about events taking place in the future, which are inherently uncertain. Where there is significant uncertainty in the entity's ability to continue as a going concern and this has been disclosed by management in the notes to the financial statements, the auditor includes wording in the auditor's report to direct users to the applicable note disclosure, in a "material uncertainty related to going concern" paragraph.

If the auditor ultimately does not agree with management's assumptions regarding going concern, the result would be a modified opinion (see "The auditor's report").

### If the going concern basis doesn't apply

When management intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so, the entity is not a going concern, and needs to report on a different basis from companies that are a going concern – for example, assets and liabilities would be recognised at their immediate sale value/ liquidation value, rather than their value in future use.

<sup>25</sup>ISA (NZ) 570 Going Concern, paragraph NZ 13.1 requires the auditor to request management to extend its assessment period to correspond to the relevant period used by the auditor, being twelve months from the date of the auditor's report, if management's assessment covers a shorter period.

## APPENDIX 1 – GLOSSARY

**Accounting standards:** Mandatory standards applied in preparing financial statements. In New Zealand, these standards are issued by the New Zealand Accounting Standards Board of the XRB.

**Assurance:** The expression of a conclusion that is intended to increase the confidence of users in subject matter against criteria (see also “What does assurance mean?”).

**Assurance practitioner:** A professional assurance services provider.

**Auditor’s report:** The final report that sets out the auditor’s opinion (see also “The auditor’s report”, and an example of an auditor’s report in Appendix 2).

**Auditing and assurance standards:** Mandatory standards applied by assurance practitioners in audits, reviews and other assurance engagements. In New Zealand these standards are issued by the New Zealand External Reporting Board, and internationally by the International Auditing and Assurance Standards Board.

**Fair presentation framework:** Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of New Zealand accounting standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

**FMC reporting entity:** Any person or company, under the FMC Act,<sup>26</sup> that is:

- an issuer of a regulated financial product
- licensed under Part 6 of the FMC Act (other than an independent trustee of a restricted scheme)
- a licensed supervisor
- a listed issuer in New Zealand
- an operator of a licensed financial market (other than a market licensed under an overseas-regulated market)
- a recipient of money from a conduit issuer (an agency generating funds used by a third-party)
- a registered bank
- a licensed insurer
- a credit union
- a building society
- a person that is an FMC reporting entity under clause 27A of Schedule 1 of the FMC Act.

Before the FMC Act took effect, some of the entities listed above were considered issuers, and their financial reporting obligations were governed by the Financial Reporting Act 1993. While the definition of an FMC reporting entity under the FMC Act is broader than that of issuer, it doesn’t include all financial market entities.

**FMC Reporting Entities considered to have a higher level of public accountability:<sup>27</sup>**

This category of FMC Reporting Entity includes:

- issuers of equity securities or debt securities under a regulated offer
- managers of registered schemes, but only in respect of financial statements of a scheme or fund prepared under section 461A
- listed issuers
- registered banks
- licensed insurers
- credit unions
- building societies
- any other entity designated as having a higher level of public accountability by the FMA.

**Financial statements:** Four primary financial statements for the current and comparative financial period (statement of comprehensive income, statement of financial position, statement of changes in equity, and cash flow statement), plus the notes to the financial statements.

**Going concern:** An entity that is expected to continue in operation for the foreseeable future, taken to be a 12-month period from the date of the auditor’s report for the purpose of auditor going concern assessments. (see also “What do auditors do in regard to going concern?”).

**Limited assurance:** A level of assurance that is meaningful, but lower than reasonable assurance (see also “What does assurance mean?”).

**Material misstatement:** An inaccuracy or omission in the financial statements that is significant enough to affect the decisions made by users.

**NZ IFRS:** New Zealand equivalent to International Financial Reporting Standards.

**Present fairly:** Presenting an accurate and unbiased picture of an entity’s financial performance, financial position and cash flow in the financial statements.

**Reasonable assurance:** A high but not absolute level of assurance (see also “What does assurance mean?”).

**Review report:** The final report that sets out the review conclusion (see also “The auditor’s report” and an example of a review report in Appendix 3).

**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. In a FMC Reporting entity this includes the board of directors, which may include some executive members, and the audit committee.

**XRB:** NZ External Reporting Board

<sup>26</sup>FMC Act s.451.

<sup>27</sup>FMC Act s.461K.

# APPENDIX 2 – EXAMPLE INDEPENDENT AUDITOR’S REPORT

## INDEPENDENT AUDITOR’S REPORT

### Who is the report for?

The report is addressed to the members or shareholders of the entity

To the Members of ABC Company Ltd.

### What does the report cover?

This section sets out the basic details of the engagement – the applicable reporting period, name of the entity, and what was audited

**Opinion**  
We have audited the accompanying financial statements of ABC Company Ltd., which comprises the statement of financial position as at December 31, 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

### What was the audit outcome?

The auditor sets out their overall finding in the opinion. This is an example of an unmodified or ‘clean’ audit opinion.  
  
See also “The auditor’s report” for information on modified opinions.

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 Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board.

### How did the auditor form their opinion?

The auditor provides important context about the auditor’s opinion.

**Basis for Opinion**  
We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.  
  
Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

### Which matters were significant in the audit?

The auditor outlines the matters most significant in the audit of the financial statements of the current period.

**Key Audit Matters**  
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.  
[Description of each key audit matter. Example: *Valuation of Financial Instruments*  
The entity’s investments in structured financial instruments represent [x%] of the total amount of its financial instruments. Due to their unique structure and terms, the valuation of these instruments is based on entity-developed internal models and not on quoted prices in active markets. Therefore, there is significant measurement uncertainty involved in this valuation. As a result, the valuation of these instruments was significant to our audit.]

**What is done on sections of the annual report which are not audited?**

The auditor explains the procedures they have conducted with respect to the other information in the annual report.

**Other Information**

The directors are responsible for the other information. The other information comprises the information included in the entity’s annual report for the year ended 30 June 20XX, but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements do not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**What is the Directors’ role?**

This describes the directors’ responsibilities for the preparation of the financial statements, the internal controls in the entity and assessing the entity’s ability to continue as going concern.

**Responsibilities of the Directors for the Financial Statements**

The directors are responsible on behalf of the Company for the preparation and fair presentation of the financial statements in accordance with NZ IFRS, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible 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.

**What is the Auditor’s role?**

The auditor sets out their responsibility for auditing the financial statements and provides a brief description of what this means (see also “What do auditors and reviews do?”)

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board website at <https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/>

**Who is the Auditor?**

The auditor provides their name and firm.

[Auditor’s name and signature]  
 [Name of Firm]  
 [Date of the auditor’s report]  
 [Auditor’s address]

