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Auditor-General's Auditing Standards 2020

Presented to the House of Representatives
under section 23(1) of the Public Audit Act 2001

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Preface

The Public Audit Act 2001 requires me to publish the auditing standards that I apply, or intend to apply, to the conduct of audits and inquiries and the provision of other auditing services.

Although there are updates to many of the auditing standards from those last published in 2017, there are two of particular significance that I wish to draw to your attention. The first is that the 2020 edition of the *Auditor-General's Auditing Standards* contains an important change to the standard on independence. Our independence from the organisations we audit is fundamental to the impact of our work. If Parliament or the public felt we were “working for” the organisation we audited, this would fundamentally undermine the value of our work.

The independence of those who carry out work for me is therefore critical to maintaining trust and confidence in our work, and the independent assurance we give. The changes to independence requirements ensure that my auditors can only do audit and assurance work for the public sector entities they audit. This is a very high level of independence, which should give additional comfort to Parliament and the public that we are truly independent from those entities that we audit.

The second matter is the emphasis on integrity and ethics in my auditing standards. Honesty and integrity are critical elements of how the public expect the public sector to operate, and they go to the heart of trust and confidence in our system of public management. I require all of my auditors to be vigilant about matters of integrity and ethics, and my standards reflect the requirements I expect of them when carrying out work on my behalf.

Although I am required to publish my standards at least once every three years, the standards are available on our website, and I am required to describe any significant changes to my standards during a year in my annual report. Audit and public expectations are changing rapidly, and I will update my standards as required to ensure that they remain relevant and focused on maintaining the very high quality of public audit in New Zealand.



John Ryan
Controller and Auditor-General

31 March 2020

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1 – The Auditor-General

Parliament authorises all government spending and provides public organisations with their statutory powers. Public organisations, including local government, are accountable for their use of public resources and the powers that Parliament gives them. The Auditor-General provides independent assurance to Parliament that public organisations are operating and accounting for their performance in the way Parliament intended.

It is not part of the Auditor-General's role to question the policies of the Government or councils.

Under the Public Audit Act 2001, the Auditor-General is responsible for auditing all public organisations. This includes:

- government departments – such as Inland Revenue and the Ministry of Education;
- Crown entities – such as the Commerce Commission, district health boards, and all school boards of trustees;
- State-owned enterprises – organisations that are owned by the government and have a strong commercial focus, such as New Zealand Post Limited and Airways Corporation of New Zealand Limited;
- councils and their subsidiaries – city, district, and regional councils, and council-controlled organisations such as charitable trusts and incorporated societies associated with councils; and
- statutory boards and other public bodies – such as airport authorities.

The Auditor-General's work is designed to assure Parliament, public organisations, and members of the public that public organisations fairly reflect the results of their activities in their annual reports. The Auditor-General also keeps an eye on whether public organisations are carrying out their activities effectively and efficiently, as well as on matters of waste, integrity, legislative compliance, and financial prudence in the public sector.

To be effective and credible, the Auditor-General and their staff must be independent of the public organisations being audited. To ensure independence, the Public Audit Act 2001 provides that the Auditor-General:

- is an officer of Parliament and can report directly to Parliament and anyone else;
- is appointed by the Governor-General on the recommendation of the House of Representatives for a single term of no more than seven years;
- is paid by Parliament, with the amount determined independently by the Remuneration Authority; and

- makes any requests for funding directly to Parliament through the Officers of Parliament Committee (rather than through the Executive Government).

Auditors appointed by the Auditor-General to carry out annual financial audits on the Auditor-General's behalf must also be independent. The Auditor-General's auditing standards put strict constraints on Appointed Auditors. They must not:

- have a personal involvement with an audited organisation (such as between family members);
- have a financial involvement with the organisation (such as financial investments);
and
- provide non-assurance services to the organisation (such as carrying out valuations).

For more information about the role of the Auditor-General, and the type of work they do, see our publication *About the Auditor-General* at oag.parliament.nz

2 – Public sector auditing

Under the Public Audit Act 2001, the Auditor-General carries out:

- annual audits;
- performance audits;
- other auditing or assurance services; and
- inquiries.

Annual audits

In an annual audit, the auditor:

- examines a public organisation's financial statements, performance information, and other information that must be audited;
- assesses the results of that examination against a recognised framework (usually generally accepted accounting practice); and
- forms and reports an audit opinion.

The audit involves gathering all the information and explanations needed to obtain reasonable assurance that the financial statements and other information do not contain material misstatements. The auditor also evaluates the overall adequacy of the presentation of information.

This audit of the annual financial statements and other information results in two reports. One is the audit report (including the audit opinion) that is included in the public organisation's published annual report. The other report is for the organisation's governing body and management on matters arising from the audit.

The audit report on a public organisation's annual financial statements and other information gives readers information to help them understand the accuracy of those statements.

The report for the governing body and management of a public organisation sets out the audit findings. It draws attention to areas in the underlying environment, systems, and controls where the public organisation is doing well and contains recommendations for improvement where appropriate.

In addition, from time to time, we use the knowledge we have from carrying out annual audits to report to Parliament more broadly on the results of audits for entities or groups of entities. We also use that knowledge to assist select committees with their scrutiny of public entities.

Performance audits

A performance audit examines one or more of the following aspects of a public organisation's performance:

- effectiveness and efficiency;
- compliance with statutory obligations;
- use of public resources;
- integrity; and
- financial prudence.

A constraint on examining effectiveness and efficiency is that it is not the Auditor-General's role to question the policies of the Government or councils.

We usually report the findings, conclusions, and recommendations of that examination to Parliament.

Other work

The above audit work is supplemented by:

- other auditing or assurance services (such as the audit of every council's long-term plan and the related consultation document, the audit of financial information in a prospectus, or giving assurance to a public organisation about its purchasing or contracting procedures); and
- inquiries, which the Auditor-General may carry out into any matter relating to a public organisation's use of its resources.

All of the work of the Auditor-General is carried out in keeping with the relevant Auditor-General's Auditing Standards, which incorporate the auditing standards issued by the New Zealand Audit and Assurance Standards Board of the External Reporting Board.

3 – About the Auditor-General’s Auditing Standards

Basis of the Standards

The Auditor-General’s Auditing Standards (the Standards) are based on the standards issued by the External Reporting Board (the XRB) that apply to assurance practitioners who carry out audits in New Zealand.

The Standards are aligned to the:

- professional and ethical standards issued by the XRB; and
- auditing and assurance standards issued by the XRB.

Meeting public sector needs

However, the professional, ethical, auditing, and assurance standards of the XRB do not always take full account of the particular scope and nature of public sector audits. Therefore, we create our own standards, which include:

- Auditor-General’s Statements that add to professional, ethical, auditing, and assurance standards issued by the XRB on particular topics;
- Auditor-General’s Standards that add to, and are incorporated into the XRB standards on particular topics; and
- Auditor-General’s Standards that specify standards to be observed on topics for which there is no equivalent XRB standard.

We create the Statements and Standards in consultation with Appointed Auditors and, where appropriate, other interested parties.

How the Standards are applied

We use the Standards when carrying out all annual audits and other work under the Public Audit Act 2001.

We require all our staff, Appointed Auditors, and their staff to comply with the relevant professional, ethical, auditing, and assurance standards issued by the XRB, and our own statements and specific standards – which collectively form the Standards. The applicability of the Auditor-General’s Auditing Standards varies depending on the type of work being carried out, as defined in the Act. Figure 1 shows how the Standards apply to each of the Auditor-General’s four statutory functions as the auditor of all public entities.

Figure 2 lists the individual standards and statements that we have created.

Figure 1: Relationship between the applicable XRB standards, the Auditor-General's Auditing Standards, and the provisions of the Public Audit Act 2001

Note: Y = The standard applies. N = The standard does not apply.

XRB standards ¹	Auditor-General's Statements or Standards	Name of Statement or Standard	Annual audits	Performance audits	Other auditing or assurance services	Inquiries
NZAuASB Glossary of Terms (EG Au4)	AG Glossary of Terms	Glossary of terms	Y	Y	Y	Y
PES 1 ²	AG PES 1	Code of ethics for assurance practitioners	Y	Y	Y	Y
PES 3 (Amended) ³	AG PES 3 (Amended)	Quality control	Y	Y	Y	Y
-	AG-5	Performance audits, other auditing services, and other work carried out by, or on behalf of, the Auditor-General	N	Y	Y	N
-	AG-6	Inquiries carried out by, or on behalf of, the Auditor-General	N	N	N	Y
ISA (NZ) 200	AG ISA (NZ) 200	Overall objective of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (New Zealand)	Y	N	N	N
ISA (NZ) 210	AG ISA (NZ) 210	The terms of audit engagements	Y	N	N	N
ISA (NZ) 220	-	Quality control for an audit of financial statements	Y	N	N	N
ISA (NZ) 230	-	Audit documentation	Y	N	N	N
ISA (NZ) 240	AG ISA (NZ) 240	The auditor's responsibilities relating to fraud in an annual audit	Y	N	N	N
ISA (NZ) 250 (Revised)	AG ISA (NZ) 250 (Revised)	Consideration of laws and regulations	Y	N	N	N
ISA (NZ) 260 (Revised)	AG ISA (NZ) 260 (Revised)	Communication with those charged with governance	Y	N	N	N

¹ The XRB standards are available at www.xrb.govt.nz.

² All individuals carrying out audits, inquiries, and other work on behalf of the Auditor-General are expected to comply with PES 1 (Revised).

³ The XRB standard, PES 3 (Amended), applies to the management of accounting firms and to individual professional assurance engagements carried out in New Zealand. We expect individuals and the firms to which they belong to comply with PES 3 (Amended) when carrying out audits and other work on behalf of the Auditor-General.

XRB standards¹	Auditor-General's Statements or Standards	Name of Statement or Standard	Annual audits	Performance audits	Other auditing or assurance services	Inquiries
ISA (NZ) 265	-	Communicating deficiencies in internal control	Y	N	N	N
ISA (NZ) 300	AG ISA (NZ) 300	Planning the annual audit	Y	N	N	N
ISA (NZ) 315 (Revised)	AG ISA (NZ) 315 (Revised)	Identifying and assessing the risks of material misstatement through understanding the entity and its environment	Y	N	N	N
ISA (NZ) 320	AG ISA (NZ) 320	Materiality in planning and performing an annual audit	Y	N	N	N
ISA (NZ) 330	AG ISA (NZ) 330	The auditor's responses to assessed risks	Y	N	N	N
ISA (NZ) 402	-	Audit considerations relating to an entity using a service organisation	Y	N	N	N
ISA (NZ) 450	AG ISA (NZ) 450	Evaluation of misstatements identified during the annual audit	Y	N	N	N
ISA (NZ) 500	-	Audit evidence	Y	N	N	N
ISA (NZ) 501	-	Audit evidence – specific considerations for selected items	Y	N	N	N
ISA (NZ) 505	-	External confirmations	Y	N	N	N
ISA (NZ) 510	-	Initial audit engagements – opening balances	Y	N	N	N
ISA (NZ) 520	-	Analytical procedures	Y	N	N	N
ISA (NZ) 530	-	Audit sampling	Y	N	N	N
ISA (NZ) 540 (Revised)	-	Auditing accounting estimates	Y	N	N	N
ISA (NZ) 550	-	Related parties	Y	N	N	N
ISA (NZ) 560	-	Subsequent events	Y	N	N	N
ISA (NZ) 570 (Revised)	AG ISA (NZ) 570 (Revised)	Going concern	Y	N	N	N
ISA (NZ) 580	AG ISA (NZ) 580	Written representations	Y	N	N	N
ISA (NZ) 600	AG ISA (NZ) 600	Special considerations – audits of group financial and performance information (including the work of component auditors)	Y	N	N	N
ISA (NZ) 610 (Revised 2013)	-	Using the work of internal auditors	Y	N	N	N
ISA (NZ) 620	-	Using the work of an expert	Y	N	N	N
ISA (NZ) 700 (Revised)	AG ISA (NZ) 700 (Revised)	Forming an opinion and reporting on financial and performance information	Y	N	N	N
ISA (NZ) 701	AG ISA (NZ) 701	Communicating key audit matters in the independent auditor's report	Y	N	N	N

XRB standards¹	Auditor-General's Statements or Standards	Name of Statement or Standard	Annual audits	Performance audits	Other auditing or assurance services	Inquiries
ISA (NZ) 705 (Revised)	AG ISA (NZ) 705 (Revised)	Modifications to the opinion in the independent auditor's report	Y	N	N	N
ISA (NZ) 706 (Revised)	AG ISA (NZ) 706 (Revised)	Emphasis of matter and other matter paragraphs in the independent auditor's report	Y	N	N	N
ISA (NZ) 710	-	Comparative information	Y	N	N	N
ISA (NZ) 720 (Revised)	-	The auditor's responsibilities relating to other information	Y	N	N	N
ISA (NZ) 800 (Revised)	-	Audits of financial statements prepared in accordance with special purpose frameworks	Y	N	N	N
ISA (NZ) 805 (Revised)	-	Audits of single financial statements and specific elements, accounts, or items of a financial statement	Y	N	N	N
AG ISA (NZ) 810 (Revised)	AG ISA (NZ) 810 (Revised)	Engagements to report on summary financial and non-financial information	Y	N	N	N
-	AG-1	Reporting to the OAG	Y	N	N	N
-	AG-2	The appropriation audit and the Controller function	Y	N	N	N
-	AG-3	The approach to issues arising from section 16(1) of the Public Audit Act 2001	Y	N	N	N
-	AG-4	The audit of performance reports	Y	N	N	N

Figure 2: The Auditor-General's Auditing Standards

Note: The page numbers follow the numbering format used in the material provided to Appointed Auditors.

Reference	Title	Page
Glossary of terms * ^	Glossary of terms	3 - 100
AG PES 1 * ^	Code of ethics for assurance practitioners	3 - 200
AG PES 3 (Amended) * ^	Quality control	3 - 500
AG-5 *	Performance audits, other auditing services, and other work carried out by, or on behalf of, the Auditor-General	3 - 1000
AG-6 *	Inquiries carried out by, or on behalf of, the Auditor-General	3 - 1100
AG ISA (NZ) 200 ^	Overall objective of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (New Zealand)	3 - 2000
AG ISA (NZ) 210 ^	The terms of audit engagements	3 - 2100
AG ISA (NZ) 240 ^	The auditor's responsibilities relating to fraud in an annual audit	3 - 2400
AG ISA (NZ) 250 (Revised) ^	Consideration of laws and regulations	3 - 2500
AG ISA (NZ) 260 (Revised) ^	Communication with those charged with governance	3 - 2600
AG ISA (NZ) 300 ^	Planning the annual audit	3 - 2800
AG ISA (NZ) 315 (Revised) ^	Identifying and assessing the risks of material misstatement through understanding the entity and its environment	3 - 2900
AG ISA (NZ) 320 ^	Materiality in planning and performing an annual audit	3 - 3000
AG ISA (NZ) 330 ^	The auditor's responses to assessed risks	3 - 3100
AG ISA (NZ) 450 ^	Evaluation of misstatements identified during the annual audit	3 - 3300
AG ISA (NZ) 570 (Revised) ^	Going concern	3 - 4300
AG ISA (NZ) 580 ^	Written representations	3 - 4400
AG ISA (NZ) 600 ^	Special considerations – Audits of group financial and performance information (including the work of component auditors)	3 - 4500
AG ISA (NZ) 700 (Revised) ^	Forming an opinion and reporting on financial and non-financial information	3 - 4800
AG ISA (NZ) 701 ^	Communicating key audit matters in the independent auditor's report	3 - 4850
AG ISA (NZ) 705 (Revised) ^	Modifications to the opinion in the independent auditor's report	3 - 4900
AG ISA (NZ) 706 (Revised) ^	Emphasis of matter paragraphs and other matter paragraphs in the independent auditor's report	3 - 5000
AG ISA (NZ) 810 (Revised) ^	Engagements to report on summary financial and non-financial information	3 - 5400
AG-1 ^	Reporting to the OAG	3 - 8000
AG-2 ^	The appropriation audit and the Controller function	3 - 8100
AG-3 ^	The approach to issues arising from section 16(1) of the Public Audit Act 2001	3 - 8200
AG-4 ^	The audit of performance reports	3 - 8250

* The Auditor-General's standard or statement applies to engagements other than the annual audit.

^ The Auditor-General's standard or statement applies to the annual audit.