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Auditor-General's Auditing Standards 2017

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

March 2017

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Preface

Section 23(1) of the Public Audit Act 2001 requires me as Auditor-General to publish (by way of a report to the House of Representatives) the auditing standards that I apply (or intend to apply) to the conduct of audits and inquiries and the provision of other auditing services under Part 3 of the Act. Section 23(2) of the Act requires me to publish those standards at least once every three years.

I introduce the 2017 edition of the *Auditor-General's Auditing Standards* with a discussion about the role of the Auditor-General and the special nature of public sector auditing.

A handwritten signature in black ink that reads "Martin Matthews". The signature is written in a cursive style with some overlapping letters.

Martin Matthews
Controller and Auditor-General

23 March 2017

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1 – The Auditor-General

In New Zealand, Parliament authorises all government spending and is the source of the statutory powers that public entities have. Public sector organisations are therefore accountable to Parliament for their use of the public resources and powers that Parliament gives them. As part of this accountability, Parliament seeks assurance from the Auditor-General that public entities are operating and accounting for their performance in the way Parliament intended.

It is not the role of the Auditor-General to question the policies of the Government or local authorities.

Under the Public Audit Act 2001, the Auditor-General is the auditor of all “public entities”, which includes the Crown, government departments, local authorities, and statutory boards and other public bodies. In carrying out audit and assurance work, the Auditor-General seeks the following outcome:

- The audit and assurance work carried out on behalf of the Auditor-General improves the performance of, and the public’s trust in, the public sector.

The Auditor-General’s role is to give Parliament and New Zealanders confidence that the public sector is effective, efficient and accountable.

To be effective and credible in this role, the Auditor-General must be independent of executive government. To ensure independence:

- the Auditor-General is appointed by the Governor-General on the recommendation of the House of Representatives;
- the Auditor-General reports directly to the House of Representatives (and has the power to report to anyone else);
- the Auditor-General’s salary is payable under a permanent authority from Parliament and does not require the approval of the Government; and
- the Auditor-General makes requests for funding directly to the House of Representatives (rather than through the Executive) after which the House recommends the sum required to the Governor-General for inclusion in an Appropriation Bill.¹

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.govt.nz

¹ Section 26E, Public Finance Act 1989.

2 – Public sector auditing

In seeking to achieve the outcome of improving the performance of, and the public's trust in, the public sector, the Auditor-General carries out a range of work. A lot of this work is designed to give assurance that public entities are presenting fairly the results of their activities in their annual reports.

Other work is designed to show whether:

- public entities are carrying out their activities effectively and efficiently;
- public entities are complying with their statutory obligations;
- waste is occurring, or is likely to occur in the future, as a consequence of any act or omission of a public entity;
- there is indication of, or appearance of, a lack of probity as a result of any act or omission by a public entity or by one or more of its members, office holders, and employees; and/or
- there is indication of, or appearance of, a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, and employees.

The “routine” audit processes that give effect to these matters are supplemented by:

- other auditing services, which the Auditor-General may, with the agreement of a public entity, perform for that entity, being any services of a kind that it is reasonable and appropriate for an auditor to perform (under section 17 of the Public Audit Act 2001); and
- inquiries, which the Auditor-General may carry out into any matter concerning a public entity's use of its resources (under section 18 of the Public Audit Act 2001).

The appropriate identification, scoping, investigation, and reporting of audits, other auditing services, and inquiries is underpinned by the Auditor-General's Auditing Standards and is facilitated by various processes carried out within the Office of the Auditor-General and by Audit Service Providers on behalf of the Auditor-General.

The main types of public sector audit

The Public Audit Act identifies two main types of audit:

- the financial report audit (sections 15 and 19); and
- the performance audit (section 16).

A financial report audit is an audit of the financial statements, accounts, and other information that a public entity is required to have audited by the Auditor-General. Some public entities are required to report on both their financial results and the measures that enable an

assessment to be made of their performance. Therefore, a financial report audit may include an audit of both financial and performance information.

A performance audit is performed at the discretion of the Auditor-General. It can be performed in respect of one or more public entities, and can examine matters of:

- effectiveness and efficiency;
- compliance with statutory obligations;
- waste;
- probity; and
- financial prudence.

For practical purposes, when we carry out a financial report audit, we also maintain an awareness of matters that may be relevant to our performance audit function. We have termed the combination of the financial report audit and maintaining an awareness of performance audit matters as the “annual audit”.

An annual audit, therefore, aims to report whether a public entity’s financial statements, performance information, and any other information that is required to be audited:

- complies with a recognised framework, usually generally accepted accounting practice (GAAP); and
- presents fairly, in all material respects, the entity’s performance and position.

Any performance audit matters identified during an annual audit may be reported to other parties, or publicly, at the discretion of the Auditor-General.

From time to time, the Auditor-General may carry out other types of audit (through legislation or at the Auditor-General’s discretion). An example of another type of public sector audit is the audits of long-term plans under the Local Government Act 2002.

Reporting on the results of audits

The Auditor-General has broad powers to report on matters arising from audits, and reports in a range of ways. For all annual audits, the audit report expresses our opinion on, and accompanies, the published financial and, where relevant, performance information for every public entity or public entity group. In addition, the knowledge we have from carrying out annual audits is used from time to time for reporting 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.

Independence

Section 9 of the Public Audit Act 2001 says that the Auditor-General – and, implicitly, all those who work for the Auditor-General – must act independently in the performance of all the Auditor-General’s functions, duties, and powers.

Independence in this context includes the professional independence of an auditor, but also means:

- being free from direction by the Government, any entities we audit, or Parliament;
- having our own powers of access to information; and
- being free to report on any matter arising out of the performance or exercise of his functions, duties, and powers, that the Auditor-General considers it appropriate to report on.

To recognise the fundamental importance of independence, the Auditor-General has prepared an additional statement (over and above the independence requirements that apply to all assurance practitioners who are required to apply the External Reporting Board’s professional, ethical, auditing, and assurance standards) that regulates the independence of auditors who carry out audits, inquiries, and other auditing services on the Auditor-General’s behalf.

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, as shown in Figure 1, 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 and ethical standards and the auditing and assurance standards of the XRB do not always take full account of the particular scope and nature of public sector audits (for example, there is currently no standard issued by the XRB on the audit of performance reports). Therefore, we create our own standards, which take two forms:

- Auditor-General’s Statements – that add to professional, ethical, auditing, and assurance standards issued by the XRB 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 work other than the annual audit, under the Public Audit Act 2001.

We require all staff and 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 2 shows how the Standards apply to each of the Auditor-General’s four statutory functions as the auditor of all public entities.

Figure 3 lists the individual standards and statements that we have created.

Figure 1: Relationship between the Auditor-General's Auditing Standards and the XRB's professional, ethical, auditing and assurance standards

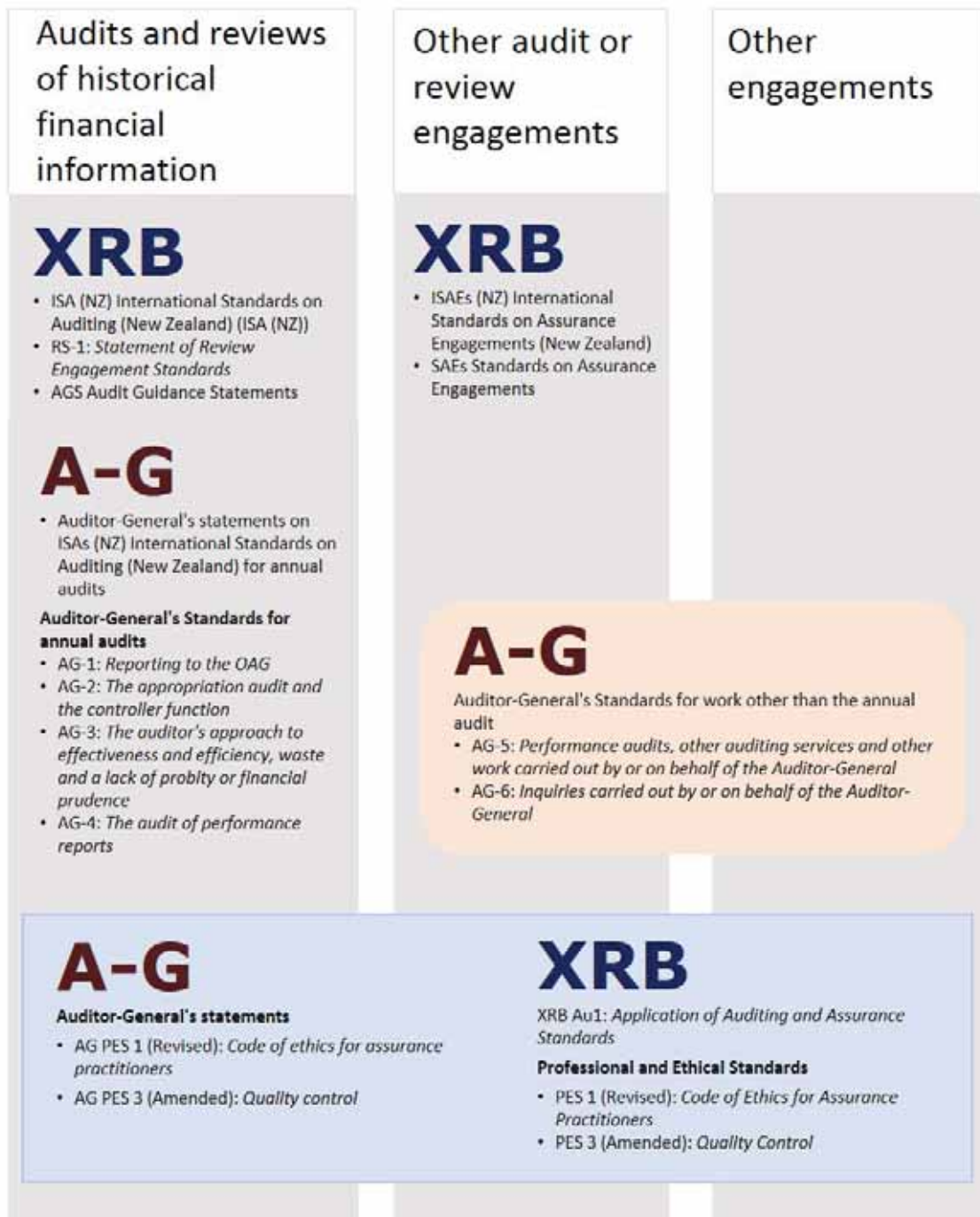


Figure 2: Relationship between the applicable XRB standards, and the Auditor-General's Auditing Standards, and the provisions of the Public Audit Act 2001

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

XRB standards ²	Auditor-General's Statements or Standards	Name of Statement or Standard	Financial report audit	Performance audit	Other auditing services	Inquiries
NZAuASB Glossary of Terms (EG Au4)	AG Glossary of Terms*	Glossary of terms	Y	Y	Y	Y
PES 1 (Revised) ³	AG PES 1* (Revised)	Code of Ethics for Assurance Practitioners	Y	Y	Y	Y
PES 3 (Amended) ⁴	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 _α	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 _α	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 _α	The auditor's responsibilities relating to fraud in an annual audit	Y	N	N	N
ISA (NZ) 250	AG ISA (NZ) 250 _α	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
ISA (NZ) 265	-	Communicating deficiencies in internal control	Y	N	N	N
ISA (NZ) 300	AG ISA (NZ) 300 _α	Planning the annual audit	Y	N	N	N
ISA (NZ) 315 (Revised)	AG ISA (NZ) 315 (Revised)	Identifying and assessing the risks of material	Y	N	N	N

² The XRB standards are available at www.xrb.govt.nz.

³ All individuals carrying out audits, inquiries, and other work on behalf of the Auditor-General are expected to comply with PES 1 (Revised).

⁴ 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 standards²	Auditor-General's Statements or Standards	Name of Statement or Standard	Financial report audit	Performance audit	Other auditing services	Inquiries
	α	misstatement through understanding the entity and its environment				
ISA (NZ) 320	AG ISA (NZ) 320 α	Materiality in planning and performing an annual audit	Y	N	N	N
ISA (NZ) 330	AG ISA (NZ) 330 α	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 α	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	-	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 α	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
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

XRB standards²	Auditor-General's Statements or Standards	Name of Statement or Standard	Financial report audit	Performance audit	Other auditing services	Inquiries
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 ^α	Reporting to the OAG	Y	N	N	N
-	AG-2 ^α	The appropriation audit and the controller function	Y	N	N	N
-	AG-3 ^α	The auditor's approach to issues of effectiveness and efficiency, waste, and a lack of probity or financial prudence	Y	N	N	N
-	AG-4 ^α	The audit of performance reports	Y	N	N	N

[^] For balance dates ending on or after 15 December 2016.

^{*} Applies from 1 April 2017.

^α For audits of financial statements and/or performance information for reporting periods beginning on, or after, 1 April 2017.

Figure 3: 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 (Revised)	* ^	Code of Ethics for Assurance Practitioners	3 - 200
AG PES 3 (Amended)	* ^	Quality control	3 - 400
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	^	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	^	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 auditor's approach to issues of effectiveness and efficiency, waste, and a lack of probity or financial prudence	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.