

AG ISA (NZ) 705 (REVISED)
THE AUDITOR-GENERAL'S STATEMENT ON
MODIFICATIONS TO THE OPINION IN THE
INDEPENDENT AUDITOR'S REPORT

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Introduction

Scope of this Statement

1. This Auditor General's Auditing Statement sets out the Auditor-General's requirements for issuing modified audit reports, and provides examples of modified audit reports (in Appendix 1) that are based on the requirements of:
 - (a) AG ISA (NZ) 700 (Revised): *Forming an Opinion and Reporting on Financial and Performance Information*; and
 - (b) ISA (NZ) 705 (Revised): *Modifications to the Opinion in the Independent Auditor's Report* (ISA (NZ) 705).¹

Application

2. Compliance with this Statement is mandatory for Appointed Auditors who carry out annual audits on behalf of the Auditor-General. This Statement requires compliance with all of the requirements of ISA (NZ) 705, except to the extent that this Statement provides otherwise. Where a conflict between this Statement and ISA (NZ) 705 exists, the requirements of this Statement shall prevail.
3. This Statement applies to audits of financial statements and/or performance information which has been prepared for reporting periods ending on or after 15 December 2016.

Objective

4. The objective of the Appointed Auditor is to express clearly an appropriately modified opinion on the financial and performance information that is necessary when:
 - (a) the Appointed Auditor concludes, based on the audit evidence obtained, that the financial and performance information as a whole is not free from material misstatement; or
 - (b) the Appointed Auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial and performance information as a whole is free from material misstatement.
5. In meeting the objective in paragraph 4, the Appointed Auditor shall make reasonable endeavours to provide assurance on those aspects of the financial and performance

¹ The ISA (NZ) auditing standards are scoped so that they apply to audits of "historical financial information". However, for the purposes of the Auditor-General's auditing standards and statements, all references to "historical financial information" should be read as the audit of "historical financial and historical performance information".

information where such assurance can be readily provided. For example, the Appointed Auditor is often able to provide assurance on the statement of cash flows, whilst being unable to form an unmodified opinion on other aspects of an entity's financial and performance information.

Definitions

6. For the purpose of this Auditor-General's Auditing Statement the defined terms have the meanings attributed:
 - (a) in the Glossary of Terms issued by the New Zealand Auditing and Assurance Standards Board (the NZAuASB glossary) of the External Reporting Board (although where a term with a specific meaning in the New Zealand public sector differs from the NZAuASB glossary, the New Zealand public sector definition shall prevail); and
 - (b) in the Auditor-General's Glossary of Terms.

Requirements

Authority for Appointed Auditors to issue modified audit reports without prior OAG approval

7. Unless there is an instruction from the OAG, Appointed Auditors are authorised to issue modified audit reports without prior OAG approval unless the misstatement giving rise to the modification is, or may be, pervasive to the reported financial and performance information. This authority does not preclude the Appointed Auditor from seeking advice from the OAG prior to issuing a modified audit report.
8. Where the misstatement giving rise to the modification is, or may be, pervasive to the reported financial and performance information, Appointed Auditors shall refer the matter to the Accounting and Auditing Policy team at the OAG in accordance with paragraph 15 in AG ISA (NZ) 700.

Matters to consider when preparing a modified audit report

9. When preparing a modified audit report, the Appointed Auditor shall ensure that they apply any requirements:
 - (a) issued by the OAG in respect of particular audits or sectors;
 - (b) contained in AG ISA (NZ) 700 (Revised) – particularly when serious consideration is given to issuing a modified audit report that is required to be

referred to the Accounting and Auditing Policy team at the OAG for approval before it is issued; and

(c) contained in AG ISA (NZ) 705 (Revised) and ISA (NZ) 705 (Revised).

10. In addition to the requirements in paragraph 9, Appointed Auditors shall refer to the example modified audit reports in Appendix 1 for guidance on presentation and format. (See paragraph A1)

Audit reports to be referred to the OAG before they are issued

11. In certain circumstances where the auditor proposes to issue a modified audit report, the Appointed Auditor shall refer the audit report to the Accounting and Auditing Policy team at the OAG before the audit report is issued. This requirement usually arises when the Appointed Auditor seriously considers issuing a modified audit report because of a matter that is potentially pervasive to the reported financial and performance information. The procedures for referring such audit reports to the OAG are specified in AG ISA (NZ) 700 (Revised).
12. Other instances where modified audit reports are required to be referred to the Accounting and Auditing Policy team at the OAG for approval before they are issued may be advised to Appointed Auditors through audit briefs or other instructions.

Reporting modified audit reports to the OAG

13. The Appointed Auditor shall forward to the OAG a copy of all audit reports issued, including modified audit reports, in keeping with the requirements set out in AG-1: *Reporting to the OAG*.

Application and other explanatory material

- A1. In formatting a modified audit report, the desired outcome is an audit report that clearly reports the findings from the audit to the readers. This should usually be able to be achieved by following the requirements of ISA (NZ) 705 (Revised). However, if the formatting requirements of ISA (NZ) 705 (Revised) limit the clear communication of audit findings, Appointed Auditors may present their findings using a different format. In doing so, Appointed Auditors are requested to consult with the Accounting and Auditing Policy team at the OAG before issuing the modified audit report.

Appendix 1 – Examples of modified audit reports

- 1.1 There are four examples of modified audit reports in this Appendix. The examples have been prepared to assist Appointed Auditors in presenting and formatting a modified audit report.
- 1.2 The examples are all based on a public entity that has prepared financial and performance information in accordance with a fair presentation framework. The examples are:

Example 1. A qualified opinion where the Appointed Auditor has obtained sufficient appropriate audit evidence and concludes that misstatements, individually or in the aggregate, are material but not pervasive.

Nature of the matter giving rise to the modification	Auditor's judgement about the pervasiveness of the effects or possible effects on the financial and performance information	
	Material but not pervasive	Material and pervasive
The financial and performance information is materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Example 2. A qualified opinion when the Appointed Auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and concludes that the possible effects of undetected misstatements, if any, could be material but not pervasive.

Nature of the matter giving rise to the modification	Auditor's judgement about the pervasiveness of the effects or possible effects on the financial and performance information	
	Material but not pervasive	Material and pervasive
The financial and performance information is materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Example 3. An adverse opinion where the Appointed Auditor has obtained sufficient appropriate audit evidence and concludes that misstatements, individually or in the aggregate, are both material and pervasive.

Nature of the matter giving rise to the modification	Auditor's judgement about the pervasiveness of the effects or possible effects on the financial and performance information	
	Material but not pervasive	Material and pervasive
The financial and performance information is materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Example 4. A disclaimer of opinion when the Appointed Auditor is unable to obtain sufficient appropriate audit evidence on which to base an opinion, and concludes that the possible effects of undetected misstatements, if any, could be both material and pervasive.

Nature of the matter giving rise to the modification	Auditor's judgement about the pervasiveness of the effects or possible effects on the financial and performance information	
	Material but not pervasive	Material and pervasive
The financial and performance information is materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Example 1 – Qualification – Disagreement – Material but not pervasive – Non-disclosure of related party transactions

[Firm's letterhead]

INDEPENDENT AUDITOR'S REPORT TO THE [READERS] OF [NAME OF ENTITY]'S FINANCIAL STATEMENTS AND STATEMENT OF PERFORMANCE FOR THE YEAR ENDED [DD MM 20XX]

The Auditor-General is the auditor of [Name of Entity] (the [entity type]). The Auditor-General has appointed me, [Name of Appointed Auditor], using the staff and resources of [Name of Auditing Firm], to carry out the audit of the financial statements and statement of performance of the [entity type] on his behalf.

We have audited:

- the financial statements of the [entity type] on pages [...] to [...], that comprise the [statement of financial position] as at [DD MM 20XX], the [statement of comprehensive income, statement of changes in equity and statement of cash flows] for the year ended on that date, and [the notes to the financial statements that included accounting policies and other explanatory information]; and
- the statement of performance of the [entity type] on pages [...] to [...].

Qualified opinion

Qualified opinion on the financial statements – Non-disclosure of related party transactions

In our opinion, except for the matter described in the *Basis for our qualified opinion* section of our report, the financial statements of the [entity type] on pages [...] to [...]:

- present fairly, in all material respects:
 - its financial position as at [DD MM 20XX]; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with [the applicable financial reporting framework].

Unmodified opinion on the statement of performance

In our opinion, the statement of performance of the [entity type] on pages [...] to [...]:

- presents fairly, in all material respects, the [entity type]'s performance for the year ended [DD MM 20XX], including:
 - its performance achievements as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
- complies with generally accepted accounting practice in New Zealand.

Our audit of the financial statements and the statement of performance was completed on [Date]. This is the date at which our qualified opinion is expressed.

The basis for our qualified opinion is explained below. In addition, we outline the responsibilities of the [Governing body] and our responsibilities relating to the financial statements and the statement of performance, we comment on other information, and we explain our independence.

Basis for our qualified opinion

The [entity type] has not provided us with evidence that the other remuneration and compensation paid to key management personnel and to close members of key management personnel has been charged to the [entity type] on normal commercial terms. If other remuneration and compensation of this nature is not charged on normal commercial terms, [entity type] is required to disclose the total amount of other remuneration and compensation paid to key management personnel and to close members of key management personnel in accordance with Public Benefit Entity International Public Sector Accounting Standard 20: *Related Party Disclosures*.

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of the [Governing body] for the financial statements and the statement of performance

The [Governing body] is responsible on behalf of the [entity type] for preparing financial statements and a statement of performance that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The [Governing body] is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and a statement of performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of performance, the [Governing body] is responsible on behalf of the [entity type] for assessing the [entity type]'s ability to continue as a going concern. The [Governing body] is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the [Governing body] intends to liquidate the [entity type] or to cease operations, or has no realistic alternative but to do so.

The [Governing body]'s responsibilities arise from the [Name of relevant Act(s)].

Responsibilities of the auditor for the audit of the financial statements and the statement of performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of performance, 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts and disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and statement of performance.

For the budget information reported in the financial statements and the statement of performance, our procedures were limited to checking that the information agreed to the [entity type]'s [statement of performance expectations].

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [entity type]'s internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [Governing body].
- We evaluate the appropriateness of the reported performance information within the [entity type]'s framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the [Governing body] and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity type]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity type] to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the statement of performance, including the disclosures, and whether the financial statements and the statement of performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the [Governing body] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The [Governing body] is responsible for the other information. The other information comprises the information included on pages [...] to [...], but does not include the financial statements and the statement of performance, and our auditor's report thereon.

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

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

Independence

We are independent of the [entity type] in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the [entity type].

Or

[In addition to the audit, we have carried out engagements in the areas of [insert description of engagements], which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with, or interests in, the [entity type].]

[Signature of Appointed Auditor]

[Name of Appointed Auditor]

[Name of Auditing Firm]

On behalf of the Auditor-General

[City], New Zealand

Example 2 – Qualification – Uncertainty – Material but not pervasive – Limited control over revenue

[Firm's letterhead]

INDEPENDENT AUDITOR'S REPORT

TO THE [READERS] OF [NAME OF ENTITY]'S FINANCIAL STATEMENTS AND STATEMENT OF PERFORMANCE FOR THE YEAR ENDED [DD MM 20XX]

The Auditor-General is the auditor of [Name of Entity] (the [entity type]). The Auditor-General has appointed me, [Name of Appointed Auditor], using the staff and resources of [Name of Auditing Firm], to carry out the audit of the financial statements and statement of performance of the [entity type] on his behalf.

We have audited:

- the financial statements of the [entity type] on pages [...] to [...], that comprise the [statement of financial position] as at [DD MM 20XX], the [statement of comprehensive income, statement of changes in equity and statement of cash flows] for the year ended on that date, and [the notes to the financial statements that include accounting policies and other explanatory information]; and
- the statement of performance of the [entity type] on pages [...] to [...].

Qualified opinion

Qualified opinion on the financial statements – Limited control over door-to-door collections revenue

In our opinion, except for the matter described in the *Basis for our qualified opinion* section of our report, the financial statements of the [entity type] on pages [...] to [...]:

- present fairly, in all material respects:
 - its financial position as at [DD MM 20XX]; and
 - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with [the applicable financial reporting framework].

Unmodified opinion on the statement of performance

In our opinion, the statement of performance of the [entity type] on pages [...] to [...]:

- presents fairly, in all material respects, the [entity type]'s performance for the year ended [DD MM 20XX], including:
 - its performance achievements as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
- complies with generally accepted accounting practice in New Zealand.

Our audit of the financial statements and the statement of performance was completed on [Date]. This is the date at which our qualified opinion is expressed.

The basis for our qualified opinion is explained below. In addition, we outline the responsibilities of the [Governing body] and our responsibilities relating to the financial statements and the statement of performance, we comment on other information, and we explain our independence.

Basis for our qualified opinion

Prior to being recorded, control over the receipt of door-to-door collections revenue is limited. Door-to-door collections revenue is disclosed in Note Z to the financial statements as \$[xxx] ([20XX-1]: \$[yyy]). There are no satisfactory audit procedures that we could adopt to confirm independently that the revenue for all door-to-door collections had been properly recorded.

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New

Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of the [Governing body] for the financial statements and the statement of performance

The [Governing body] is responsible on behalf of the [entity type] for preparing financial statements and a statement of performance that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The [Governing body] is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and a statement of performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of performance, the [Governing body] is responsible on behalf of the [entity type] for assessing the [entity type]'s ability to continue as a going concern. The [Governing body] is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the [Governing body] intends to liquidate the [entity type] or to cease operations, or has no realistic alternative but to do so.

The [Governing body]'s responsibilities arise from the [Name of relevant Act(s)].

Responsibilities of the auditor for the audit of the financial statements and the statement of performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of performance, 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts and disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and statement of performance.

For the budget information reported in the financial statements and the statement of performance, our procedures were limited to checking that the information agreed to the [entity type]'s [statement of performance expectations].

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [entity type]'s internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [Governing body].
- We evaluate the appropriateness of the reported performance information within the [entity type]'s framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the [Governing body] and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the [entity type]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity type] to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of performance, including the disclosures, and whether the financial statements and the statement of performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the [Governing body] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The [Governing body] is responsible for the other information. The other information comprises the information included on pages [...] to [...], but does not include the financial statements and the statement of performance, and our auditor's report thereon.

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

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

Independence

We are independent of the [entity type] in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the [entity type].

Or

[In addition to the audit, we have carried out engagements in the areas of [insert description of engagements], which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with, or interests in, the [entity type].]

[Signature of Appointed Auditor]

[Name of Appointed Auditor]

[Name of Auditing Firm]

On behalf of the Auditor-General

[City], New Zealand

Example 3 – Adverse – Disagreement - Material and pervasive – Non-recognition of heritage assets

[Firm's letterhead]

INDEPENDENT AUDITOR'S REPORT
TO THE [READERS] OF [NAME OF ENTITY]'S
FINANCIAL STATEMENTS AND STATEMENT OF PERFORMANCE
FOR THE YEAR ENDED [DD MM 20XX]

The Auditor-General is the auditor of [Name of Entity] (the [entity type]). The Auditor-General has appointed me, [Name of Appointed Auditor], using the staff and resources of [Name of Auditing Firm], to carry out the audit of the financial statements and statement of performance of the [entity type] on his behalf.

We have audited:

- the financial statements of the [entity type] on pages [...] to [...], that comprise the [statement of financial position] as at [DD MM 20XX], the [statement of comprehensive income, statement of changes in equity and statement of cash flows] for the year ended on that date, and [the notes to the financial statements that include accounting policies and other explanatory information]; and
- the statement of performance of the [entity type] on pages [...] to [...].

Adverse opinion

Adverse opinion on the financial statements – Non-recognition of heritage assets

In our opinion, because of the significance of the matter discussed in the *Basis for our adverse opinion* section of our report, the financial statements of the [entity type] on pages [...] to [...]:

- do not present fairly, in all material respects:
 - its financial position as at [DD MM 20XX]; and
 - its financial performance for the year then ended; and
- do not comply with generally accepted accounting practice in New Zealand and have not been prepared in accordance with [the applicable financial reporting framework].

Unmodified opinion on the cash flows and statement of performance

In our opinion the statement of cash flows on page [...]:

- presents fairly, in all material respects, the cash flows for the year ended [DD MM 20XX]; and
- complies with generally accepted accounting practice in New Zealand in accordance with [the applicable financial reporting framework].

In our opinion the statement of performance of the [entity type] on pages [...] to [...]:

- presents fairly, in all material respects, the [entity type]'s performance for the year ended [DD MM 20XX], including:
 - its performance achievements as compared with forecasts included in the statement of performance expectations for the financial year; and
 - its actual revenue and expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
- complies with generally accepted accounting practice in New Zealand.

Our audit of the financial statements and the statement of performance was completed on [Date]. This is the date at which our adverse opinion is expressed.

The basis for our adverse opinion is explained below. In addition, we outline the responsibilities of the [Governing body] and our responsibilities relating to the financial statements and the statement of performance, we comment on other information, and we explain our independence.

Basis for our adverse opinion

The [entity type] has not recognised its heritage assets in the statement of financial position, nor the associated depreciation expense in the statement of comprehensive revenue and expense. This is a departure from Public Benefit Entity International Public Sector Accounting Standard 17: *Property, Plant and Equipment* that generally requires assets to be recognised and depreciated during their useful lives. Because heritage assets make up a substantial proportion of the [entity type]'s total assets the effect of their omission from the financial statements is pervasive, resulting in the financial statements being fundamentally misleading.

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Responsibilities of the [Governing body] for the financial statements and the statement of performance

The [Governing body] is responsible on behalf of the [entity type] for preparing financial statements and a statement of performance that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The [Governing body] is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and a statement of performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of performance, the [Governing body] is responsible on behalf of the [entity type] for assessing the [entity type]'s ability to continue as a going concern. The [Governing body] is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the [Governing body] intends to liquidate the [entity type] or to cease operations, or has no realistic alternative but to do so.

The [Governing body]'s responsibilities arise from the [Name of relevant Act(s)].

Responsibilities of the auditor for the audit of the financial statements and the statement of performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of performance, 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts and disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and statement of performance.

For the budget information reported in the financial statements and the statement of performance, our procedures were limited to checking that the information agreed to the [entity type]'s [statement of performance expectations].

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [entity type]'s internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the [Governing body].
- We evaluate the appropriateness of the reported performance information within the [entity type]'s framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the [Governing body] and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the [entity type]'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the [entity type] to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the statement of performance, including the disclosures, and whether the financial statements and the statement of performance represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the [Governing body] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibility arises from the Public Audit Act 2001.

Other information

The [Governing body] is responsible for the other information. The other information comprises the information included on pages [...] to [...], but does not include the financial statements and the statement of performance, and our auditor's report thereon.

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

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

Independence

We are independent of the [entity type] in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the [entity type].

Or

[In addition to the audit, we have carried out engagements in the areas of [insert description of engagements], which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with, or interests in, the [entity type].]

[Signature of Appointed Auditor]

[Name of Appointed Auditor]

[Name of Auditing Firm]

On behalf of the Auditor-General

[City], New Zealand

Example 4 – Disclaimer – Uncertainty – Material and pervasive – Loss of accounting records

[Firm's letterhead]

INDEPENDENT AUDITOR'S REPORT

TO THE [READERS] OF [NAME OF ENTITY]'S FINANCIAL STATEMENTS AND STATEMENT OF PERFORMANCE FOR THE YEAR ENDED [DD MM 20XX]

The Auditor-General is the auditor of [Name of Entity] (the [entity type]). The Auditor-General has appointed me, [Name of Appointed Auditor], using the staff and resources of [Name of Auditing Firm], to carry out the audit of the financial statements and statement of performance of the [entity type] on his behalf.

Disclaimer of opinion

We are required to audit:

- the financial statements of the [entity type] on pages [...] to [...], that comprise the [statement of financial position] as at [DD MM 20XX], the [statement of comprehensive income, statement of changes in equity and statement of cash flows] for the year ended on that date, and [the notes to the financial statements that include significant accounting policies and other explanatory information]; and
- the statement of performance of the [entity type] on pages [...] to [...].

We do not express an opinion on the financial statements and the statement of performance of the [entity type].

Because of the significance of the matter described in the *Basis for our disclaimer of opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements and the statement of performance.

The date of our disclaimer of opinion is [Date].

We outline the responsibilities of the [Governing body] and our responsibilities relating to the financial statements and the statement of performance, and we explain our independence.

Basis for our disclaimer of opinion

As stated in note [...] on page [...], a fire at the [entity type]'s head office destroyed many of the accounting records that form the basis for the preparation of the financial statements and the statement of performance. As a consequence, we were unable to obtain sufficient appropriate audit evidence that would have allowed us to form an audit opinion.

Responsibilities of the [Governing body] for the financial statements and the statement of performance

The [Governing body] is responsible on behalf of the [entity type] for preparing financial statements and a statement of performance that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The [Governing body] is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and a statement of performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of performance, the [Governing body] is responsible on behalf of the [entity type] for assessing the [entity type]'s ability to continue as a going concern. The [Governing body] is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the [Governing body] intends to liquidate the [entity type] or to cease operations, or has no realistic alternative but to do so.

The [Governing body]'s responsibilities arise from the [Name of relevant Act(s)].

Responsibilities of the auditor for the audit of the financial statements and the statement of performance

Our responsibility is to:

- carry out an audit of the [entity type]'s financial statements and statement of performance in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the

International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board; and

- issue an auditor's report.

However, because of the matters described in the *Basis for our disclaimer of opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements and the statement of performance.

Our responsibilities arise from the Public Audit Act 2001.

Our independence and other ethical responsibilities

We are independent of the [entity type] in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners*.

Other than the audit, we have no relationship with, or interests in, the [entity type].

Or

[We have carried out engagements in the areas of [insert description of engagements], which are compatible with those independence requirements. Other than in our capacity as auditor and these engagements, we have no relationship with, or interests in, the [entity type].]

[Signature of Appointed Auditor]

[Name of Appointed Auditor]

[Name of Auditing Firm]

On behalf of the Auditor-General

[City], New Zealand