

AG ISA (NZ) 600
THE AUDITOR-GENERAL'S STATEMENT ON
SPECIAL CONSIDERATIONS - AUDITS OF GROUP FINANCIAL AND
PERFORMANCE INFORMATION (INCLUDING THE WORK OF
COMPONENT AUDITORS)

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Introduction

Scope of this Statement

1. This Auditor-General's Auditing Statement applies to group audits where the parent is a public entity in New Zealand, and:
 - (a) establishes the Auditor-General's requirements in relation to ISA (NZ) 600: *Special Considerations – Audits of Group Financial Statements* (ISA (NZ) 600);¹ and
 - (b) provides additional guidance to reflect the public sector perspective.

2. This Statement clarifies the extent to which the requirements in ISA (NZ) 600 apply to the annual audits of public entity groups, which is illustrated in Figure 1. Clarity is needed because:
 - (a) ISA (NZ) 600 does not apply to the audits of public entity groups (where all the entities in the group are public entities) because all public entities are audited by one auditor, the Auditor-General; and
 - (b) ISA (NZ) 600 does apply to the audits of some public entity groups, where;
 - a New Zealand domiciled component is not a public entity; and
 - a public entity group includes a component domiciled in an overseas jurisdiction (that may be controlled or not controlled).

3. A controlled entity domiciled in an overseas jurisdiction (subsequently referred as a controlled overseas component) is not a public entity.² Nonetheless, those charged with governance and the management of the parent public entity are expected to ensure that a controlled overseas component operates with regard to the principles of probity and financial prudence, operates effectively and efficiently, complies with statutory obligations, and minimises waste. As a result, it is expected that the Group Appointed Auditor will, as part of meeting the requirements contained in AG-3, request component auditors to maintain the same level of awareness and alertness for issues or risks as outlined in AG-3: *The auditor's approach to issues of effectiveness and efficiency, waste, and a lack of probity or financial prudence.*

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".

² This definition reflects the general principle of statutory interpretation that legislation does not have extraterritorial effect, unless the legislation expressly says that it does, or that extended application is necessary to achieve the purpose of the legislation. The Public Audit Act does not meet these criteria.

Application

4. 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) 600, except to the extent that this Statement provides otherwise. Where a conflict between this Statement and ISA (NZ) 600 exists, the requirements of this Statement shall prevail.
5. This Statement applies to audits of financial statements and/or performance information which has been prepared for reporting periods beginning on or after 1 April 2017.

Objectives

The Group Appointed Auditor's objective when a component is a public entity

6. The objective of the Group Appointed Auditor is to:
 - (a) work co-operatively with Component Appointed Auditors of all components that are public entities, as if the Group and Component Appointed Auditors are part of the same audit firm, rather than complying with all of the requirements of ISA (NZ) 600; and
 - (b) obtain sufficient and appropriate audit evidence to form an opinion on the group financial and performance information.

The Component Appointed Auditor's objective when a component is a public entity

7. The objective of the Component Appointed Auditor is to work co-operatively with the Group Appointed Auditor, as if the Group and Component Appointed Auditors are part of the same audit firm, to enable the Group Appointed Auditor to obtain sufficient and appropriate audit evidence to form an opinion on the group financial and performance information.

The Group Appointed Auditor's objective when a component is not a public entity

8. The objective of the Group Appointed Auditor is to work with the component auditors of all non-public entity components in accordance with the requirements of ISA (NZ) 600, and the alternative requirements contained in this Statement, in order to obtain

sufficient and appropriate audit evidence to form an opinion on the group financial and performance information.

The Group Appointed Auditor's objective when a component is a controlled overseas component

9. In addition to the objective in paragraph 8, the objective of the Group Appointed Auditor is to ensure that AG-3 is appropriately applied to the audit of the Group, including controlled overseas components.

Definitions

10. 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);
- (b) in the Auditor-General's Glossary of Terms; and
- (c) in the list below.

Component Appointed Auditor means the auditor appointed by the Auditor-General, who carries out the annual audit of a subsidiary or component which is a public entity, on behalf of the Auditor-General.

Component auditor means, as defined in ISA (NZ) 600, an auditor who, at the request of the group engagement team, performs work on the financial and performance information related to a component for the Group audit.

Component that is a public entity means a subsidiary or component of a public entity (or entities) and is a public entity as defined in the Public Audit Act 2001.

Component that is not a public entity means a subsidiary or component of a public entity (or entities) and is not a public entity as defined in the Public Audit Act 2001. This may include:

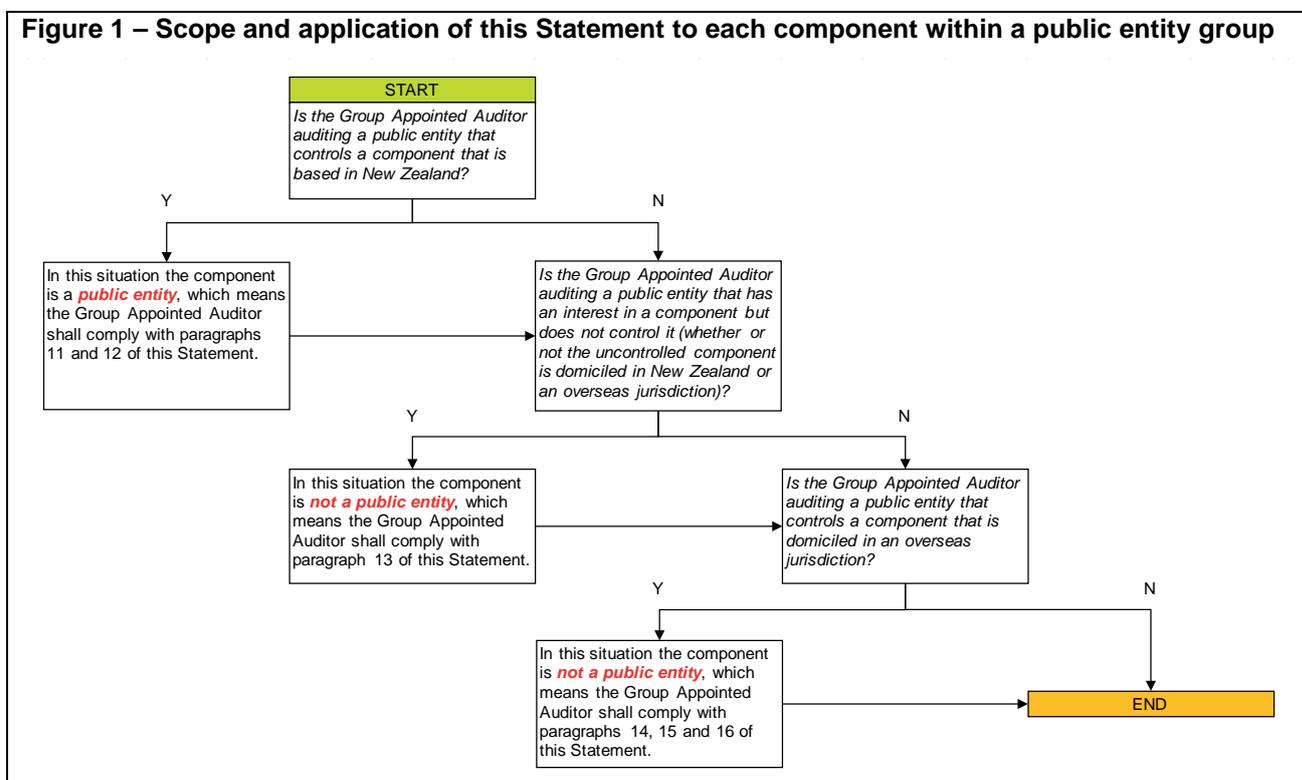
- (a) a controlled overseas component; or
- (b) a component that is not controlled by a public entity (or entities) and is domiciled either in New

Zealand or an overseas jurisdiction.

Group Appointed Auditor

means the auditor appointed by the Auditor-General who carries out the annual audit of the public entity group, on behalf of the Auditor-General.

Figure 1 – Scope and application of this Statement to each component within a public entity group



Requirements

When components are public entities

11. In developing the overall audit strategies and audit plans for the group in accordance with the requirements in AG ISA (NZ) 300,³ the Group Appointed Auditor shall work with Component Appointed Auditors as if they are part of the same audit firm to obtain sufficient and appropriate audit evidence in the most efficient way to be able to form an opinion on the group financial and performance information. To do this, the Group Appointed Auditor shall have regard to the requirements contained in ISA (NZ) 600, but take into account the Auditor-General's processes and standards that apply to the work of Component Appointed Auditors, including:
- Taking account of the engagement acceptance and continuance requirements in AG PES 3 (Amended): *Quality control*, instead of meeting the

³ Paragraphs 8 and 9 in AG ISA (NZ) 300 requires all Appointed Auditors to consider the relevant public sector perspective when developing their overall audit strategy and audit plan.

- requirements of paragraphs 12 to 13 of ISA (NZ) 600 on acceptance and continuance.
- (b) Taking account of the requirements in AG ISA (NZ) 210: *The terms of the audit engagement* to confirm the terms of the audit engagement, instead of meeting the requirement of paragraph 14 of ISA (NZ) 600 on agreeing the terms of audit engagement.
 - (c) Taking account of the requirements in AG ISA (NZ) 300: *Planning the annual audit* to incorporate the information and instructions contained in the applicable audit brief in their overall audit strategy and audit plan, in addition to the requirements of paragraphs 17 and 18 of ISA (NZ) 600. In meeting this requirement the Group Appointed Auditor may need to understand the information and instructions outlined in the applicable audit brief used by Component Appointed Auditors and work with them in their audit planning procedures.
 - (d) Taking account of the fact that Component Appointed Auditors are required to comply with the ethical and independence requirements in AG PES 1 (Revised): *Code of ethics for assurance practitioners*, instead of meeting the requirements of paragraphs 19(a), 40(b), and 41(a) of ISA (NZ) 600, on obtaining confirmation, that Component Appointed Auditors will comply with ethical and independence requirements.
 - (e) Taking account of the fact that Component Appointed Auditors are required to comply with the professional competence requirements in AG PES 3, instead of meeting the requirement of 19(b) (also reflected in paragraph 4) of ISA (NZ) 600, on obtaining confirmation that Component Appointed Auditors will comply with professional competence requirements.
 - (f) Taking account of the requirements in AG ISA (NZ) 320: *Materiality in planning and performing an annual audit*, when meeting the requirements of paragraphs 21, 22, and 23 of ISA (NZ) 600.
12. In meeting the requirements of paragraph 11 of this statement, the Group Appointed Auditor may, in rare circumstances, need to review the audit files of a Component Appointed Auditor. In this situation the Component Appointed Auditor shall provide access to the Group Appointed Auditor.

When components are not public entities

The component is not a public entity

13. The Group Appointed Auditor shall carry out their audit in accordance with the requirements of ISA (NZ) 600 but shall comply with the engagement acceptance and

continuance requirements in AG PES-3 (Amended) instead of meeting the requirements of paragraphs 12 to 13 of ISA (NZ) 600 on acceptance and continuance for group audits.⁴

The component is a controlled overseas component

14. In addition to the requirement in paragraph 13, the Group Appointed Auditor shall request the component auditor to appropriately consider and report to the Group Appointed Auditor on any issues or risks required to be identified under AG-3. This will normally require the Group Appointed Auditor to add additional material to the instructions sent to the component auditor to ensure that they appropriately consider and report any issue or risk required to be identified under AG-3.
15. Where this approach is not possible, the Group Appointed Auditor may need to assess whether those charged with governance of the parent public entity actively monitor compliance with AG-3 issues and risks within the controlled overseas component, and determine if any additional auditing procedures and/or reporting is necessary.
16. The Group Appointed Auditor shall report AG-3 issues and risks raised by the component auditor, in keeping with the requirements contained in AG-3.

When there are difficulties with the audit of a group

17. Group or Component Appointed Auditors shall immediately contact the Assistant Auditor-General – Accounting and Auditing Policy, if they:
 - (a) have any difficulties in applying this Statement;
 - (b) identify that the work of a Group Appointed Auditor, Component Appointed Auditor, or component auditor may be insufficient, in accordance with paragraph 43 in ISA (NZ) 600; or
 - (c) are considering communicating with management or those charged with governance concerns about the quality of the component auditor's work, in accordance with paragraph 49(c) in ISA (NZ) 600.

⁴ AG-3 does not apply to *uncontrolled* components because these entities are not public entities as defined in the Public Audit Act 2001.