

AG ISA (NZ) 315

The Auditor-General's Statement on Identifying and Assessing the Risks of Material Misstatement

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Introduction

Scope of this Statement

1. This Auditor-General's Auditing Statement:
 - (a) establishes the Auditor-General's requirements in relation to ISA (NZ) 315 (Revised 2019): *Identifying and Assessing the Risks of Material Misstatement* (ISA (NZ) 315 (Revised 2019))¹; and
 - (b) provides additional guidance to reflect the public sector perspective.

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) 315 (Revised 2019) and the additional requirements included in this Statement.
3. This Statement applies to audits of financial statements and/or performance information that have been prepared for reporting periods beginning on or after 1 April 2023, although earlier application is encouraged.

Objectives

4. The objectives of the Appointed Auditor are to:
 - (a) identify and assess the risks of material misstatement, whether due to fraud or error, in the financial statements and performance information at the financial statement and assertion levels thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement;
 - (b) maintain alertness and awareness for, and if necessary assess, risks that the public entity may not:
 - (i) apply its resources effectively and efficiently;
 - (ii) comply with its statutory obligations;
 - (iii) minimise waste;
 - (iv) conduct its business with due regard to probity; and
 - (v) act in a financially prudent manner.

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".

- (c) obtain, for public entities identified by the OAG, to the level necessary, an understanding of internal control in a public entity that may be used by the OAG to report matters to Parliament on the quality of the internal control in public entities, at an individual, sector, or national level.

Definitions

5. For the purpose of this Auditor-General's Auditing Statement, the defined term listed below has the following meaning:

Appointed Auditor	means the person or persons appointed by the Auditor-General to carry out the annual audit or other engagement on behalf of the Auditor-General, and who are supported by other members of the audit team. Where an Auditor-General's Statement or Standard expressly intends that a requirement be fulfilled by the Appointed Auditor personally, the requirement will indicate that the Appointed Auditor shall personally satisfy the requirement.
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Requirements

Risk assessment procedures and related activities

Engagement team discussion

6. The engagement team discussion (required under paragraph 17 of ISA (NZ) 315 (Revised 2019)) shall also consider:
- (a) how the audit team should maintain an awareness of the risks that the public entity may not have:
 - (i) applied its resources effectively and efficiently;
 - (ii) complied with its statutory obligations;
 - (iii) minimised waste;
 - (iv) conducted its business with due regard to probity; and
 - (v) acted in a financially prudent manner; and
 - (b) how any observations on these matters should be communicated to the Sector Manager at the OAG as required by AG-3.

Understanding the entity and its environment

7. As part of the risk assessment procedures required in paragraph 19(a) of ISA (NZ) 315 (Revised 2019), the Appointed Auditor shall assess:
 - (a) the adequacy of the process whereby those charged with governance monitor the entity's financial and non-financial performance against expectations; and
 - (b) whether the examples of conditions and events in Appendix 1 may indicate risks of material misstatement.
8. The Appointed Auditor shall perform risk assessment procedures, if relevant, by considering:
 - (a) Findings from any other work of the Auditor-General (such as performance audits, inquiries, or audits of long-term plans);
 - (b) Other work carried out by the Appointed Auditor's firm;
 - (c) Any external reviews carried out by parties such as industry associations, Ministers, and control agencies (such as the Treasury and the Public Service Commission); or
 - (d) Any internal reviews carried out, or commissioned, by the entity.
9. The Appointed Auditor shall immediately report the findings of any relevant internal reviews (identified under para 8(d)) to the Sector Manager at the OAG.

Appendix 1 – Examples of conditions and events that may indicate risks of material misstatement in the financial and performance information

The following are examples of conditions and events that may indicate risks of material misstatement for public entities. The examples are additional to those in Appendix 2 of ISA (NZ) 315 (Revised 2019).

They include:

- major changes to existing programmes;
- new legislation and regulations or directives;
- new programmes, products, or services;
- new performance measures;
- new systems for recording financial and performance information;
- political decisions such as relocation of operations;
- increased public expectations;
- matters of high public interest, which may lead to expectations to meet targets or higher than normal expectations to meet budget;
- changes in ownership arrangements;
- changes in political leadership;
- public–private partnerships;
- outsourcing of government activities;
- budget overspending due to weak budgetary controls;
- programmes without sufficient allocated resources and funding; and
- operations subject to special investigations.