

DO YOU IMPOSE ASSURANCE ENGAGEMENTS?

A guide for prescribers of assurance engagements

IN THIS GUIDE



Use correct terminology



Who undertakes the engagement?



Specify level of confidence



Consider practicality

The NZAuASB is a committee of the XRB established under Schedule 5 of the Crown Entities Act.

The NZAuASB has delegated authority from the XRB to develop, or adopt and issue auditing and assurance standards for assurance practitioners (including professional and ethical standards).

NZAuASB standards

Assurance standards issued by the NZAuASB are provided across three key categories:

1. **Professional and ethical standards** – these standards specify the ethical principles and quality control requirements that all assurance practitioners must adhere to.
2. **Standards for assurance engagements over financial statements** – these are the two most common assurance engagements – audit and review of the financial statements. These have been developed to provide greater confidence in the information included in the financial statements.
3. **Standards for assurance engagements other than audits and reviews** – these standards can be customised by an expert assurance practitioner to apply to a wide range of matters other than annual financial reports.

Professional & Ethical Standards (PES)

Auditing Standards (Au)

Review Standards (RE)

Other Assurance Standards (OA)

Introduction

As prescribers — regulators, government departments and others — often require entities to seek professional services. This is to establish a level of trust and confidence over specified information, such as financial reports.

An assurance engagement—performed in accordance with the assurance standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB)—is one such example.

There are also other professional services that, while they may enhance confidence in information, they are not “assurance engagements” as defined by or performed in accordance with the NZAuASB’s assurance standards.

It is therefore important to consider:

- If there is a statutory reason for requiring such services to be undertaken in accordance with the NZAuASB’s assurance standards;
- Why you require professional services along with the users who stand to benefit from the service;
- If the expected service is either one carried out by a professional practitioner who complies with the NZAuASB’s standards (see page 8 for more information), or one carried out by a practitioner who undertake services in accordance with standards other than those issued by the NZAuASB¹;
- Whether the user’s expectations align with what an assurance engagement can actually deliver; and
- If an agreed upon procedures (AUP) engagement² would be more appropriate in the circumstances.

1 e.g. standards issued by the International Organization for Standardization (ISO) or Standards New Zealand;

2 An AUP engagement involves a practitioner performing procedures that have been agreed to by the practitioner, the entity and any appropriate third parties, and reporting on the factual findings based on the procedures performed. In conducting an AUP engagement, the practitioner does not express an opinion. Users of the AUP report assess for themselves the factual findings based on the procedures performed and draw their own conclusions. AUP engagements are not currently included in the NZAuASB’s mandate, more information is available from Chartered Accountants Australia and New Zealand (www.charteredaccountantanz.com)

This guidance applies only to those situations where as a prescriber you have concluded that an assurance engagement in accordance with the NZAuASB's standards is the appropriate course of action.

In requiring such an assurance engagement, it is important to ensure that:

- You appropriately address the needs of the expected users of the engagement (the users) ;
- The entity required to arrange the assurance engagement (the engaging party) has a clear understanding of the engagement and who it should approach to undertake it; and
- The assurance practitioner finds the engagement's description is consistent with the relevant NZAuASB's assurance standards, including any ethical and professional requirements (if not, the practitioner may conclude that they are unable to undertake the engagement).

As prescribers of assurance engagements, you need to describe the engagement clearly and accurately to achieve the above.

This guidance provides an overview of relevant matters to consider here.

You will find this guidance helpful when:

- New legislation is being proposed and/or where existing legislation is being revised or clarified and where an assurance engagement will be a requirement.
- You are drafting documentation where an assurance engagement is required.

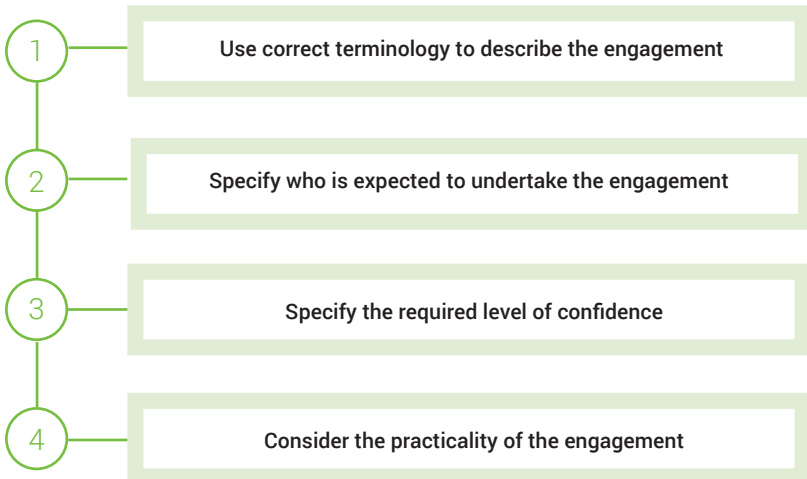


What do I need to know?

This involves describing the engagement and specifying its scope.

- To ensure that both users'/prescribers' expectations are fully met, and to avoid the possibility of misleading those involved in undertaking the engagement, you must make the description of the engagement accurate and clear.
Explicitly requiring the engagement to be conducted in accordance with the NZAuASB's standards is a good start.
- It is also very important for the independent assurance practitioner to understand the scope of work to be undertaken and the form of report to be provided.
- In particular, there is a need to be clear about what is within in the scope of the work to ensure intended users' expectations of the engagement are appropriate. The scope determines the nature and extent of testing that will be required.

The following diagram provides a list of the key considerations to assist prescribers to properly describe the engagement.



1

Use correct terminology to describe the engagement



Some terms have specified meanings under the NZAuASB's assurance standards. Unless these terms are used carefully, the information could be misleading to users¹.

The first step in ensuring correct use of terminology is to match the type of information to the corresponding assurance engagement. From this perspective, information types can be categorised into two general categories: historical financial information vs other types of information.

Historical financial information

Information that is typically included in an entity's financial statements is called "historical financial information". Assurance engagements over financial statements are the best known and most commonly used assurance engagements: audit or review engagements.

- An audit is a reasonable assurance engagement (see page 10) over historical financial information.

Here an independent assurance practitioner (called an independent auditor) provides their opinion as to whether the financial statements are prepared in accordance with the applicable financial reporting framework.

- A review is a limited assurance engagement (see page 10) over historical financial information that is less thorough and detailed than an audit.

Here the independent assurance practitioner provides a conclusion as to whether anything has come to their attention to indicate that the financial statements have not been prepared in all material respects, in accordance with the applicable financial reporting framework.

¹ Appendix 1 on page 14 provides examples of misleading communications.

Other types of information

Assurance engagements over all other subject matter types (other than “historical financial information”) are dealt with under the “Other Assurance Engagement” standards. These standards can be applied to a wide range of information.

- ISAE (NZ) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, is the umbrella standard for other assurance engagements,. You can use it with topic-specific standards, where relevant. The NZAuASB has issued the following subject matter-specific other assurance standards:
 - SAE 3100 (Revised), *Compliance Engagements*
 - SAE 3150 (Revised), *Assurance Engagements on Controls*
 - ISAE 3402, *Assurance Reports on Controls at a Service Organisation*
 - ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*
 - ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*
- Other assurance engagements can be undertaken as reasonable or limited assurance engagements (see page 10 for more information).

An important consideration when requiring other assurance engagements is their practicability (see page 12 for more information).

How to describe an assurance engagement

Appendix 3 provides summarises the appropriate key terms to describe an assurance engagement.

2

Who is expected to undertake the engagement?



In New Zealand, statutory assurance engagements performed in accordance with the NZAuASB's standards are required to be performed by assurance practitioners with specified credentials.

Appendix 2 provides an overview of the various credentials given to New Zealand assurance practitioners at present.

Some legislation specifies that the assurance practitioner is required to comply with standards issued by the NZAuASB. This includes compliance with ethical and quality control standards and may specify any additional credentials required.

Members of professional accounting bodies (such as Chartered Accountants Australia and New Zealand (CAANZ) and CPA Australia) are also required to comply with all the relevant standards issued by the NZAuASB when undertaking an assurance engagement, statutory assurance or otherwise. However, membership of a professional accounting body does not automatically make the member eligible for undertaking an assurance engagement.

In addition to such membership, assurance practitioners need to have a certificate of public practice.

They also need to be subject to initial and continuing professional development, as well as ongoing monitoring and disciplinary regimes. These ensure the quality of assurance services and compliance with professional and ethical standards.

NZAuASB's standards may be used by individuals who are NOT accredited members of any professional accounting body.

Here, they can only assert compliance with those standards if they comply with them, together with the professional ethical and quality control standards issued by the NZAuASB, or similar standards that are at least as demanding as those issued by the NZAuASB.

In this case, it is recommended that you consult an appropriately qualified evaluator to evaluate the alternative ethical and quality control standards against the NZAuASB standards.

3

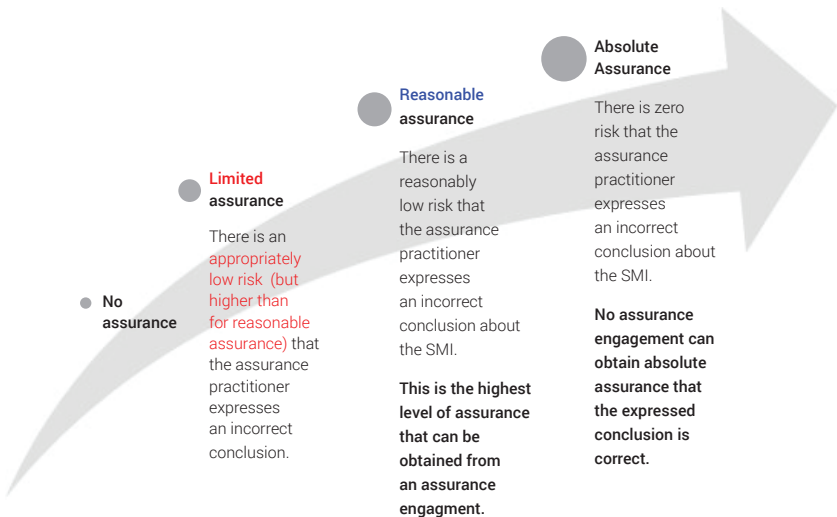
Specify the required level of confidence



No assurance engagement can obtain absolute assurance about the engagement subject matter. Instead, assurance practitioners can be engaged to obtain either:

- **Reasonable** assurance (a high level of assurance, which is less than absolute assurance) from obtaining sufficient and appropriate evidence. This then allows the assurance practitioner to express a positive opinion over the subject matter information (SMI); or
- **Limited** assurance (a meaningful level of assurance, which is more than inconsequential, but is less than reasonable assurance) from obtaining sufficient and appropriate evidence. This then allows for the assurance practitioner to express a negative conclusion over the subject matter information (SMI).

Because the level of assurance obtained in a **limited** assurance engagement is lower than in a **reasonable** assurance engagement, the procedures the practitioner performs in a **limited** assurance engagement vary in nature and timing from, and are less in extent than for, a **reasonable** assurance engagement.



The table compares reasonable and limited assurance.

<p style="text-align: center;">Reasonable Assurance Engagement</p>	<p style="text-align: center;">Limited Assurance Engagement</p>
<p>Designed to provide a reasonable level of assurance.</p> <p>The reasonable assurance report opinion: Expressed in positive form:</p> <p style="padding-left: 40px;"><i>"...In our opinion, the subject matter information presents fairly..."</i></p> <p>Provides a high, but not absolute level of assurance.</p>	<p>Designed to provide only limited assurance.</p> <p>The limited assurance engagement conclusion:</p> <p>Expressed in the negative form:</p> <p style="padding-left: 40px;"><i>"...based on the work performed, as described in the report, nothing has come to our attention..."</i></p> <p>Provides a lower level of assurance than from a reasonable assurance engagement.</p>
<p>Assurance that the subject matter information is not materially misrepresented.</p>	<p>Increased risk that assurance practitioner may not become aware of significant misrepresentation in the subject matter information.</p>
<p>Drives a higher level of work effort.</p>	<p>Drives a lower level of work effort and potentially a different testing approach.</p>

It is important that prescribers clearly specify their expected level of confidence from the assurance engagement (e.g. a reasonable or limited assurance engagement).

4

Consider the practicability of the engagement

?

Existence of suitable criteria is a fundamental element of an assurance engagement. Suitable criteria¹ are required for reasonably consistent measurement or evaluation of the engagement's subject matter.

Assurance engagements can be undertaken only over subject matters that:

- are identifiable and measurable against suitable criteria (i.e. the benchmarks used for evaluation of the subject matter), and
- can be subjected to procedures to gather evidence sufficient to support the required assurance conclusion.

Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding.

Therefore, it is important for you as the prescriber to consider (and where appropriate specify) the suitable criteria for the assurance engagement.

Another important matter is the availability of relevant evidence. Evidence is information used by the assurance practitioner to arrive at their conclusion. You will need to consider whether the practitioner can reasonably be expected to be able to:

- Obtain the evidence needed to support the assurance practitioner's conclusion, and
- Have access to records, documentation and other information the assurance practitioner may require as evidence to complete the engagement.

Finally, note that it is impractical for an assurance practitioner to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proven otherwise.

¹ For more information on suitable criteria please refer to ISAE (NZ) 3000 (Revised), paragraphs A45 to A50.

An assurance engagement does not consider *every single component* of the underlying subject matter information.

Instead, assurance practitioners express their opinions (in reasonable assurance engagements) or their conclusion (in limited assurance engagements) in relation to information that is material to the intended users.

Information is material if its misstatement, including omissions, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information.

It is important that an assurance engagement is prescribed to reflect the fact that materiality considerations are relevant and applicable to the engagement.

Appendix 1: Examples of inaccurate descriptions of assurance engagements

Inaccurate	Improved
<p>The assurance practitioners are required to undertake a review of financial statements and to provide an audit opinion about the report.</p>	<p>Review and audit are two different types of assurance engagements (see page 6).</p> <p>The assurance practitioner should either be asked to review the financial statements to provide a review report or to audit the financial statements and to provide an audit report.</p>
<p>The assurance practitioners are required to perform an Agreed Upon Procedures (AUP) engagement over certain information and to provide an opinion if the information is fairly presented.</p>	<p>An AUP engagement includes presentation of facts as agreed. It is not an assurance engagement and should not be described in a manner that implies it is.</p> <p>You need to carefully consider your needs and circumstances to determine if you require an AUP engagement or an assurance engagement.</p>
<p>An auditor is required to verify completeness of certain information not included in the financial statements as part of their audit.</p>	<p>There are two issues:</p> <ol style="list-style-type: none"> 1. the required matter is outside the scope of an audit engagement. It should clearly be required as a separate engagement. 2. The term “verify” implies an absolute level of assurance. It is important the required assurance engagement is phrased appropriately to avoid implying that it is absolute. For example, it is always helpful to state that the assurance practitioner is expected to provide an opinion (not to “verify”) as to whether certain type of information is complete in all material respects.

Appendix 2: Assurance practitioners with recognised credentials

Title	Entity	Description
Licensed Auditor	The Financial Markets Authority (FMA)	This is the highest level of a statutory recognition an assurance practitioner auditing or reviewing the financial statements may obtain in New Zealand. A licensed auditor is permitted to audit or review (in accordance with the NZAuASB's assurance standards) the financial statements of FMC Reporting entities.
Qualified Auditor	Chartered Accountants Australia New Zealand (CA ANZ)	CA ANZ members who are recognised as "qualified auditors" are permitted to audit or review (in accordance with the NZAuASB's assurance standards) the financial statements of registered charities.
A chartered Accountant with a Certificate of Public Practice (CPP)	CA ANZ, and CPA Australia	This is the starting level of professional recognition for a chartered accountant who provides assurance services over financial statements. A CPP holder is permitted to conduct audit and review (in accordance with the NZAuASB's assurance standards) on financial statements for all entities, except for those that are restricted to licensed or qualified auditors.
The Auditor-General	The Public Audit Act 2001	The Auditor-General is responsible for auditing all public entities.

Appendix 3: Key terms to describe an assurance engagement

The table summarises the appropriate key terms to use to describe an assurance engagement.

Information Type	Assurance Level	Engagement Title	Assurance Practitioner
Historical financial Information	Reasonable	Audit	The independent auditor
	Limited	Review	The independent assurance practitioner
Other information	Reasonable	Reasonable Assurance Engagement	The independent assurance practitioner
	Limited	Limited Assurance Engagement	The independent assurance practitioner