



Professional Standards Division

Information for Funding Providers

Understanding Services Available from our Members

This information sheet outlines different services that members of the New Zealand Institute of Chartered Accountants (the Institute) can provide to assist you in managing your funding arrangements with third parties

TABLE OF CONTENTS

| | Page |
|--|------|
| Introduction | 2 |
| Your First Step | 2 |
| What Our Members Can Do..... | 3 |
| Our Services | 3 |
| Audit | 3 |
| Review | 4 |
| Agreed Upon Procedures..... | 5 |
| Compilation of Information..... | 5 |
| What we Require from our Members | 6 |
| General | 6 |
| Code of Ethics | 6 |
| Code of Ethics: Independence in Assurance Engagements..... | 6 |
| Engagement Standards..... | 7 |
| How to Identify our Members | 7 |
| Conclusion | 7 |
| Summary of Services | 8 |

INTRODUCTION

As a funder, you will have carefully considered the accountability arrangements that you require to be in place with third parties requesting and receiving grants, service contracts, or other forms of funding from you. External assurance can play a valuable role in these arrangements. However, not all funders or recipients of grants are aware of the different types of assurance that are or can be made available. This is clear from the expectation gaps that arise in relation to the most long-established of assurance services, the audit of financial statements.

It is common to see funding bodies asking for audited financial statements, irrespective of the size of the entity or the amount of funding sought and in some cases without a full understanding of the strength and limitations of this type of assurance:

- The cost to a grant recipient of obtaining an audit of financial statements can be significant, especially when compared to the amount of the grant sought or received.
- Further, it may be that audited financial statements do not provide you, the funder, with the information or assurance that you need.
- We suspect that some parties expect too much of audits and other external assurance, believing (and relying on that belief) that those providing external assurance services will identify and resolve problems within the entity, for example, with systems and controls.

You may not be aware that there are other services that our members can provide that may be more appropriate in meeting your needs. In this information sheet we outline some options available to you.

YOUR FIRST STEP

It is important that you, as a funder, decide what you require in order to meet your needs for accountability purposes. For example:

- You may want to satisfy yourselves that the third party is financially viable.
- You may want assurance that the third party is complying with the terms of the grant.
- You may want evidence that grant money was received by the entity and expended for the purpose intended.
- You may want assurance that the expenditure achieved certain outcomes.

You may have other needs unique to your circumstances.

Your first step should be to clearly identify what you require, both at the time of the initial grant application and as part of the subsequent monitoring mechanism.

Having done this, you will be able to identify the information and/or assurance that will meet your needs and have some expectation of the costs of obtaining that information and/or assurance. You should now consider who might be best qualified, both in terms of expertise and experience, to carry out the work. It will then be necessary to negotiate with the applicant organisation to ensure there is complete understanding about the type of reporting required, who will be receiving the information, what it will cost and who will pay for it.

WHAT OUR MEMBERS CAN DO

There are a number of services a member of the Institute can provide. For each type of service, the member will provide a report that indicates the type of work performed by them; each provides a different level of assurance. Which service best suits your needs is your decision and depends on what you are looking for. These services are described below.

OUR SERVICES

(These are summarised on page 8 of this document)

Audit

An audit is an engagement whereby an independent expert, the auditor, provides an *opinion* on “a matter of accountability” referred to as the subject matter. A “matter of accountability” is something that is the responsibility of someone else (usually management of the relevant entity). The auditor’s opinion is designed to give a high, but not absolute level of assurance (expressed as reasonable assurance) on the subject matter. For example, an audit of financial statements provides users of those statements with reasonable assurance from an independent professional that the financial statements do not contain material misstatements. This is designed to increase the credibility of the information contained in the financial statements.

Reasonable Assurance

Reasonable assurance relates to the accumulation of the evidence necessary for the auditor to form a conclusion, i.e. to be able to report positively on the matter subject to audit. It relates to the whole audit process. An auditor cannot obtain absolute assurance because there are inherent limitations in an audit that affect the auditor’s ability to detect material misstatements, for a number of reasons, such as the use of testing and the fact that most audit evidence is persuasive rather than conclusive. Therefore an audit is not a guarantee.

Subject Matter

An auditor can provide assurance on a wide variety of matters. It is important for the party requesting the audit to clearly establish what they want assurance on. In some cases this will be partly determined by legislation or regulations, for example, the Companies Act 1993 requires, with some exceptions, that the financial statements of a *company* be audited each year. However, an auditor can be engaged to give a high level of assurance on other matters – this may be other financial information, for example an opinion on a Statement of Receipts & Payments – or something not the subject of any written statements, such as the entity’s compliance with grant conditions.

It is over to the party requesting the audit to specify what they require the auditor to give assurance on. This, however, must be identifiable and capable of consistent evaluation or measurement against identified criteria so that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support the auditor’s opinion.

Auditing Standards

Members of the Institute are required to adhere to our full suite of Auditing Standards (where relevant to the particular engagement) when carrying out an audit. These Standards apply to all audits carried out by members of the Institute, irrespective of the size or nature of the entity, whether or not the member is in public practice and whether or not a fee is charged for the service. Auditing Standards contain the basic principles and minimum procedures for the conduct of an audit. New Zealand Auditing Standards closely follow International Standards on Auditing (ISAs) and therefore reflect international best practice.

Nature of Work

In order to provide reasonable assurance the auditor is required to obtain sufficient appropriate evidence on which to base his/her conclusions. This will involve, among other things:

- Obtaining an understanding of the entity;
- Based on that understanding, assessing risks and then developing overall responses and performing further procedures clearly linked to the identified risks;
- Performing procedures to obtain evidence – these procedures may involve inspection, observation, confirmation, recalculation, reperformance, analytical procedures, enquiry – the nature and extent of these will depend, in part on the auditor's assessment (and testing) of controls;
- Obtaining corroborating information;
- Evaluating the evidence obtained.

The exact nature, timing and extent of evidence-gathering procedures will vary from one engagement to the next.

Report

At the completion of the engagement, the auditor will prepare a report that will briefly explain certain key aspects of the audit process and contain an expression of opinion.

It is important to read the audit report carefully to understand what the auditor is giving assurance on. For example, an audit opinion expressed on a set of financial statements will normally state whether or not the financial statements comply with a relevant financial reporting framework (for example New Zealand Generally Accepted Accounting Practice) and give a true and fair view of various matters. It is basically saying that the information presented by management of the entity is reliable and can therefore be used for decision making. The auditor is NOT expressing any opinion on, for example the financial viability of an entity, the effectiveness of process or whether the entity has an effective system of internal controls.

Review

A review engagement is designed to give the reader a limited level of assurance on the financial information. This involves an independent examination of information when the examination is conducted with the objective of providing a report that nothing has come to the reviewer's attention to cause the reviewer to believe that the information does not present a true and fair view. This helps lend some credibility to the information but provides a lower level of assurance than an audit.

A review is based on enquiries and analytical procedures (comparing information with other relevant information to see if it is consistent and 'makes sense') and the exercise of professional judgement. However, any indication that an error (or fraud) may have occurred, which could result in material misstatement, should cause the member to undertake such further investigation as is necessary to confirm or dispel these suspicions.

Both reasonable assurance (audit) and limited assurance (review) engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic engagement process that includes obtaining an understanding of the subject matter and other engagement circumstances. The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a review engagement are, however, deliberately more limited than an audit engagement.

If the funder needs a higher level of assurance on parts of the financial statements, a review could be supplemented with an audit of selected items in the financial statements.

Agreed-Upon Procedures

In an agreed-upon procedures engagement a member agrees with the client to perform specific procedures. These procedures are not designed to support an expression of any opinion. The member simply reports on the factual findings resulting from the procedures that have been performed. (As agreed with you, I did xxxx and found yyyy). This type of engagement may be of particular usefulness to you as a funder, as it can target the specific area that you are interested in, for example, giving you specific information relating to your grant (that it was received and banked by the entity, that specific items were purchased, that wages of zzz was paid etc).

The member's report should be restricted to the party requesting that the procedures be performed and that party must form their own conclusions from the procedures performed and the factual findings reported.

Compilation of Information

You may decide that all you require is high quality information about some matter. Our members are able to use their accounting expertise to compile and present financial information. While the procedures employed in a compilation engagement are not designed and do not enable the member to express any assurance on the financial information or on related matters, users of the information derive benefit because members are required to carry out work with professional competence and due care and are subject to the ethical and other professional standards and guidance issued by the Institute.

Independence is NOT a requirement for this type of work, but if the member is aware that they are not independent then a statement to that effect must be made in the report.

The member is required to read the financial information, once compiled, consider whether it appears to be appropriate in form and free from obvious material misstatements and ensure that the compiled financial information is consistent with their understanding of the entity and with the information provided by management and, to the best of their knowledge, with the basis of accounting on which the financial information has been prepared. As mentioned below, members are not permitted to be associated with information which they believe contains material misstatements.

Members are required to attach a report to the compiled information. This report will state that they have compiled the information but that the procedures do not include verification or validation procedures and that no assurance is expressed.

Note

For all of the services described above, in most circumstances, our members would be engaged by the entity concerned who would then receive the resulting report. Therefore, instructions to carry out any form of service would be issued by that entity. You, as a funder, will need to make your requirements known to the entity so that they can then engage an appropriate provider. It may be possible for you to engage our members directly, in which case you would issue the instructions and receive the report. However, access to records and the necessary information would need to be arranged with and agreed to by the entity.

WHAT WE REQUIRE FROM OUR MEMBERS

(and hence what you should expect)

General

To become a member of the Institute, a candidate must meet stringent educational and experience requirements. Members will therefore have demonstrated competence in performing responsible roles and tasks and have had that competence verified at many stages along the qualifying path for admission. Having become a member, they are required to act in accordance with the rules of professional behaviour. Ongoing membership involves a commitment to update and extend their professional knowledge and skills and the Institute has specified minimum professional development requirements.

Quality assurance is one of the Institute's key functions. The Institute and the Chartered Accountant (CA) brand represent quality, integrity and the adoption and application of professional standards. The Institute has an obligation to the public to ensure that members practise in a manner consistent with these values. The practice review programme, whereby independent reviewers visit members in public practice regularly, is one quality assurance process that the Institute uses to ensure its members continue to be competent, act with integrity and comply with professional and technical standards.

Further, the Institute has a strict disciplinary process for dealing with complaints against its members.

Code of Ethics

Irrespective of the type of service provided, all members of the Institute are required to comply with our *Code of Ethics*. The Code is based on five Fundamental Principles:

- **Integrity** – this requires, among other things, that members must not make any statement which the member knows or should know is false, misleading or open to misconstruction.
- **Objectivity and Independence** – this requires that members must be fair and impartial. Members undertaking certain types of engagements must be, and be seen to be, Independent (this latter concept is discussed in more detail below).
- **Competence** – this requires that members must only undertake professional work where they have the necessary skills and experience to perform the work to the technical and professional standards expected.
- **Quality Performance** – this requires that members must perform their professional work with due care and diligence and complete it in a timely manner.
- **Professional Behaviour** – this requires that members must act in a manner consistent with the good reputation of the profession and refrain from any conduct which might bring discredit to the profession.

Code of Ethics: Independence in Assurance Engagements

Members undertaking audit and review engagements (as described above) must ensure that they are independent. This is the characteristic that gives value to the opinion expressed. Without independence an Institute member's ability to provide assurance on the subject matter is seriously impaired. Accordingly, they must be able to demonstrate that their actions, behaviour and conduct comply with the *Code of Ethics: Independence in Assurance Engagements*. This document provides a framework, built on principles, for identifying, evaluating and responding to threats to independence. Some detailed guidance is given on various circumstances to illustrate the application of the principles. For example, significant assistance in the preparation of financial statements would generally threaten the independence of an auditor or reviewer.

The fact that a member is performing an engagement in a voluntary capacity does not relieve the member from the requirement to be independent.

Engagement Standards

The Institute also issues Engagement Standards which expand upon the application of the Fundamental Principles to particular types of engagement. These Standards state mandatory basic principles and essential procedures that must be performed when members are performing specific types of engagement.

HOW TO IDENTIFY OUR MEMBERS

Not all those who call themselves 'accountants' or 'auditors' are members of the Institute. Any 'suitably qualified'¹ person is entitled to describe themselves as an 'accountant' or 'auditor'. However, the Institute only has jurisdiction over its members, in particular, the Institute's Codes of Ethics and Engagement Standards only apply to members. Our members can generally be identified by the designation they use. The terms "Chartered Accountant" (CA), "Associate Chartered Accountant" (ACA), and "Accounting Technician" (AT) may only be used by those who have completed the academic, practical experience and professional components relevant to the designation and been admitted to membership.²

CONCLUSION

With increased focus on public accountability, funding bodies are aware of the need to balance their monitoring requirements with the costs and benefits of these monitoring arrangements.

In this information sheet we have briefly introduced the services that members of the Institute can provide, highlighting the differing levels of assurance provided by each. If you wish to obtain further information about anything in this document, please feel free to contact the Institute at:

Director – Professional Standards
psd@nzica.com

New Zealand Institute of Chartered Accountants
National Office, Cigna House, 40 Mercer St
PO Box 11-342, Wellington
Tel: 4 – 474 7840
Web site: www.nzica.com

¹ A person is suitably qualified if that person holds a certificate, degree, diploma, registration, or similar qualification, whether obtained in New Zealand or elsewhere, that is relevant to the practices of accounting and auditing. [Institute of Chartered Accountants of New Zealand Act 1996, section 15 (2)]. However, nothing in this section prevents – (c) Any person or member of a club, institution, or association which is not carried on with a view to profit from acting as auditor of the club, institution, or association. [Institute of Chartered Accountants of New Zealand Act 1996, section 15 (3)]

² If you are uncertain whether an individual is a member of the Institute, you may ring the Institute to check.

SUMMARY OF SERVICES

| | Agreed-Upon Procedures | Compilation | Review | Audit |
|--|--|---|--|--|
| Level of Assurance | No opinion expressed | No opinion is expressed, but the accountant is required to read the compiled information and consider whether it appears to be appropriate in form and free from obvious material misstatements | Moderate/Limited (expressed as negative assurance) | High, but not absolute (expressed as reasonable assurance) |
| Ethical Requirements | Code of Ethics | Code of Ethics | Code of Ethics Code of Ethics: Independence in Assurance Engagements | Code of Ethics Code of Ethics: Independence in Assurance Engagements |
| Other Professional Requirements | Compliance with Agreed Upon Procedures Engagement Standard | Compliance with Compilation of Financial Information Engagement Standard | Compliance with Review Engagement Standard | Compliance with Auditing Standards |
| Report Provided | The accountant reports on factual findings and identifies the nature of the work performed enabling the accountant to make such statements | The accountant reports that they have compiled the financial information and that neither an audit engagement nor a review engagement has been carried out | The review reports that nothing has come to the reviewer's attention which would cause them to believe that the assertions contained in the financial information do not present a true and fair view in accordance with the disclosed basis of accounting (or the reasons for not being able to so state) | The audit report contains the auditor's clear expression of opinion on the matter to be reported on. For example, an audit report on financial statements may state whether or not the financial statements give a true and fair view of, for example the financial position, results and cash flows of the entity |

Because of the differences in the amount of work performed, the cost to perform these services varies accordingly.