GUIDANCE ON ASSURANCE ENGAGEMENTS FOR NOT-FOR-PROFITS IN NEW ZEALAND

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About this publication

This publication has been developed to help practitioners understand how assurance engagements apply to not-for-profit entities.

The publication is intended to be read in conjunction with any relevant legislation, the entity's founding documents, and the auditing and assurance standards. It provides helpful information and examples only.

WHAT IS AN ASSURANCE ENGAGEMENT?

An assurance engagement is an engagement in which an 'assurance practitioner' aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the 'intended users' other than the 'responsible party' about the outcome of the evaluation or measurement of the 'underlying subject matter' against 'criteria'. It is this tripartite nature (assurance practitioner, intended users and responsible party) which distinguishes an assurance engagement from other types of engagement such as business advisory services or consulting engagements where the report is addressed to the 'engaging party' who is also the user of the report.

Common examples of assurance engagements are an audit or a review of a financial report. However, there are a range of other types of assurance engagements for specific purposes, for example; assurance over controls or in relation to compliance with the terms of an agreement.

Appendix 1 explains an audit engagement and a review engagement in more detail.

An assurance practitioner is a person or an organisation engaged to undertake an assurance engagement.

Intended users are the individual(s) or organisation(s), or groups(s) thereof that the assurance practitioner expects will use the assurance report (eg the members of a club). In some cases, there may be intended users other than those to whom the assurance report is addressed.

The responsible party is the party responsible for the 'underlying subject matter' (eg the officers). The responsible party may or may not be the 'engaging party'.

The engaging party is the party that engages the assurance practitioner to perform the assurance engagement.

The underlying subject matter is what is being evaluated or measured by applying 'criteria' (eg financial information).

Criteria are the benchmarks used to evaluate or measure the underlying subject matter (eg the applicable financial reporting standards).

A reasonable assurance engagement is where the objective is a reduction in 'assurance engagement risk' to an acceptably low level (eg an audit of a financial report).

A limited assurance engagement is where the objective is a reduction in 'assurance engagement risk' to a level that is acceptable, but where that risk is greater than for a reasonable assurance engagement (eg a review of a financial report).

Assurance engagement risk is the risk of expressing an inappropriate opinion or conclusion when the 'subject matter information' is materially misstated.

Subject matter information is the outcome of the evaluation or measurement of the underlying subject matter against the criteria (eg the financial report).

WHEN IS AN ASSURANCE ENGAGEMENT REQUIRED?

Requirements for a not-for-profit (NFP) to have its financial report audited or reviewed can be found in a number of places, including but not limited to:

- The legislation that the entity is subject to, otherwise known as 'statutory' requirements.
- The entity's founding documents (eg rules, constitution or trust deed).
- A funding application or funding agreement.

An entity may be able to change the requirements in its founding documents to align them with the statutory requirements.

Appendix 2 provides an overview of the legislated assurance provisions that might be applicable to the NFP sector.

An entity can be subject to more than one piece of legislation (eg a NFP may also be subject to the Public Audit Act 2001, in addition to the legislation it is established under). If this is the case, then the highest legislative requirements apply.

WHO CAN DO THE ASSURANCE ENGAGEMENT?

Statutory assurance engagements

Assurance engagements that are required by law must be carried out by a 'qualified auditor'[1]. These qualification requirements have recently changed as follows:

- For years ending before 30 June 2016 a 'qualified auditor' is a Chartered Accountant (CA) with a Certificate of Public Practice (CPP).
- For years ending on or after 30 June 2016 a 'qualified auditor' is someone who has been recognised as a qualified auditor. The New Zealand Institute of Chartered Accountants (NZICA), which is our regulatory body in New Zealand, is able to recognise members resident in New Zealand. A licensed auditor is automatically considered to be a qualified auditor and does not require separate recognition. We have a register of the qualified auditors we have recognised on our website.

Non-statutory assurance engagements

Our rules[2] require anyone carrying out an assurance engagement that is not required by law to be a CA. Therefore, recognition as a qualified auditor is not required. In some cases the intended user may require that the assurance engagement be performed by a CA holding a CPP or by a CA in public practice.

However, assurance engagements are considered to be specialised services. Members undertaking them should ensure they are fully familiar with the professional and ethical standards, and the auditing and assurance standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB), and also with the applicable financial reporting standards issued by the New Zealand Accounting Standards Board (NZASB).

WHAT IS COVERED BY THE ASSURANCE ENGAGEMENT?

Statutory assurance engagements

The legal definition[3] of 'financial statements' refers to what is required to be prepared by the applicable financial reporting standard. Some financial reporting standards for NFPs require the inclusion of non-financial information, such as a Statement of Service Performance (SSP), in the financial report. Since these requirements relating to non-financial information are included in the same financial reporting standard as the requirements for the financial information, the 'financial statements' as a whole encompass this non-financial information.

However, 'financial statements' as defined[4] in the auditing and review standards does not include non-financial information. Therefore, the NZAuASB has issued interim guidance[5] on how to form an opinion or conclusion on the non-financial information included in a financial report.

Non-statutory assurance engagements

A NFP can decide whether it wants the non-financial information in its financial report included in the assurance engagement. In these circumstances:

- The engagement letter needs to clearly set out the scope of the engagement and reporting.
- The audit or review report needs to be clear about what information the opinion or conclusion covers.
- In an audit engagement, where the NFP elects not to have the non-financial information audited, this will be treated as 'other information'.[6]
- In a review engagement, where the NFP decides to exclude the non-financial information from the review engagement, there is no requirement to consider the non-financial information included in the financial report.

1 Section 36 of the Financial Reporting Act 2013
2 Rules of the New Zealand Institute of Chartered Accountants, Paragraph 10.3
3 Section 6 of the Financial Reporting Act 2013
4 EG Au4 Glossary of terms
5 EG Au9 Guidance on the Audit or Review of the Performance Report of Tier 3 Not-For-Profit Public Benefit Entities
6 Under ISA (NZ) 720 The Auditor's Responsibility in Relation to Other Information

APPENDIX 1 – ASSURANCE ENGAGEMENTS

Audit engagement

Level of assurance?	An audit provides 'reasonable' assurance which is a high level of assurance, but not absolute.
When is it useful?	When you need an independent opinion over historical financial information, usually a complete set of financial statements.
What is it?	An audit involves assessing how the entity has prepared the historical financial information and provides a report giving an opinion on whether the financial information has been prepared in accordance with the applicable financial reporting standards. An audit is based on the concept of selective testing of the data underlying the financial information as a whole. Also an audit is only carried out to a level of materiality, therefore individual transactions and balances are not necessarily audited separately. It is important to note that an audit report is usually addressed to the residual interest holder. The assurance practitioner has a direct duty of care to the residual interest holder, but any other users can have confidence in the audit process.
Example report wording	An opinion is expressed in a positive form: "In our opinion, the annual financial statements are presented fairly in all material respects in accordance with the applicable financial reporting standards."

Review engagement

Level of assurance?	A review provides 'limited' assurance which is a lower level of assurance than that provided by an audit.
When is it useful?	When you need an independent conclusion over historical financial information, usually a complete set of financial statements, but you do not need the extent of an audit.
What is it?	A review involves assessing how the entity has prepared the historical financial information and provides a report giving a conclusion on whether there is anything to suggest that the financial information has not been prepared in accordance with the applicable financial reporting standards. The nature, timing and extent of procedures in a review are deliberately more limited than an audit. A review generally does not involve testing of the data underlying the financial information. It is important to note that a review report is usually addressed to the residual interest holder. The assurance practitioner has a direct duty of care to the residual interest holder, but other users can have confidence in the review process.
Example report wording	A conclusion is expressed in a negative form: "Nothing has come to our attention that causes us to believe that the annual financial statements are not presented fairly in all material respects in accordance with the applicable financial reporting standards."

APPENDIX 2 – LEGISLATIVE REQUIREMENTS

Entity form	Legislative reference*	Assurance requirement
Body corporate	s132 of the Unit Titles Act 2010	(2) Within 2 months after the end of each financial year, the body corporate must– (a) submit its financial statements to an independent auditor for auditing; or (b) submit its financial statements to an accountant for review; or (c) engage an accountant to undertake specific verification procedures as determined by the body corporate by special resolution at a general meeting. .... (7) Any person appointed to undertake any of the functions described in subsection (2) must be a qualified auditor. (8) The body corporate may, at the annual general meeting, decide by special resolution that subsection (2) does not apply for a particular year.
Charitable trust	Charitable Trusts Act 1957	None, but if the trust is also a registered charity refer below.
Class 4 gambling licence holder	s107 of the Gambling Act 1993	(2)(b) The annual report must include an auditor's report on the information contained in the report. ... (6)(b) Auditor means ... a person who is a qualified auditor.
Credit union	s122 of the Friendly Societies and Credit Unions Act 1982	Every FMC reporting entity must ensure that the financial statements ... are audited by a licensed auditor.[8]
Friendly society	s64A of the Friendly Societies and Credit Unions Act 1982	(1) Every registered society or branch that is a specified not-for-profit entity in respect of a financial year must appoint a qualified auditor to audit its financial statements for that year. (2) Subsection (1) does not apply if financial statements for that year are not required to be prepared. An entity is a specified not-for-profit entity in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating payments of the entity are $125,000 or more.[9]
Incorporated society	s23 of the Incorporated Societies Act 1908	None, but if the society is also a registered charity or holds a class 4 gambling licence see the relevant entries.
Industrial and provident society	s8E of the Industrial and Provident Societies Act 1908	(2) Every registered society ... must ensure that the financial statements of the society ... are audited by a qualified auditor. Registered societies can opt-out by a resolution passed by a ≥95% vote of the members.
Maori incorporation	s277 of the Te Ture Whenua Maori Act 1993	(1) The shareholders of a large Maori incorporation shall, at each annual general meeting, appoint an auditor or auditors to hold office from the conclusion of that meeting until the conclusion of the next annual general meeting. ... (4) No person may be appointed as auditor of a large Maori incorporation unless that person is a qualified auditor (within the meaning of section 35 of the Financial Reporting Act 2013). A Maori incorporation is large in respect of a financial year if, in each of the 2 preceding financial years, the total revenue of the Maori incorporation and its subsidiaries (if any) exceeds $10 million.

8 Section 461D-E of the Financial Markets Conduct Act 2013
9 Section 46 of the Financial Reporting Act 2013
10 See footnote 9

Registered charity	**s42C-D of the Charities Act 2005**	42C(2) Every charitable entity … must ensure that the financial statements … are– (a) audited by a qualified auditor if the entity is large; (b) audited or reviewed by a qualified auditor if the entity is medium. 42D(1) (a) A charitable entity is large in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating expenditure of the entity and all entities it controls (if any) is $1 million or more. (b) A charitable entity is medium in respect of an accounting period if– (i) it is not large under paragraph (a); and (ii) in each of the 2 preceding accounting periods of the entity, the total operating expenditure of the entity and all entities it controls (if any) is $500,000 or more.
Trust	**Trustee Act 1956**	None

*References are correct at time of going to print