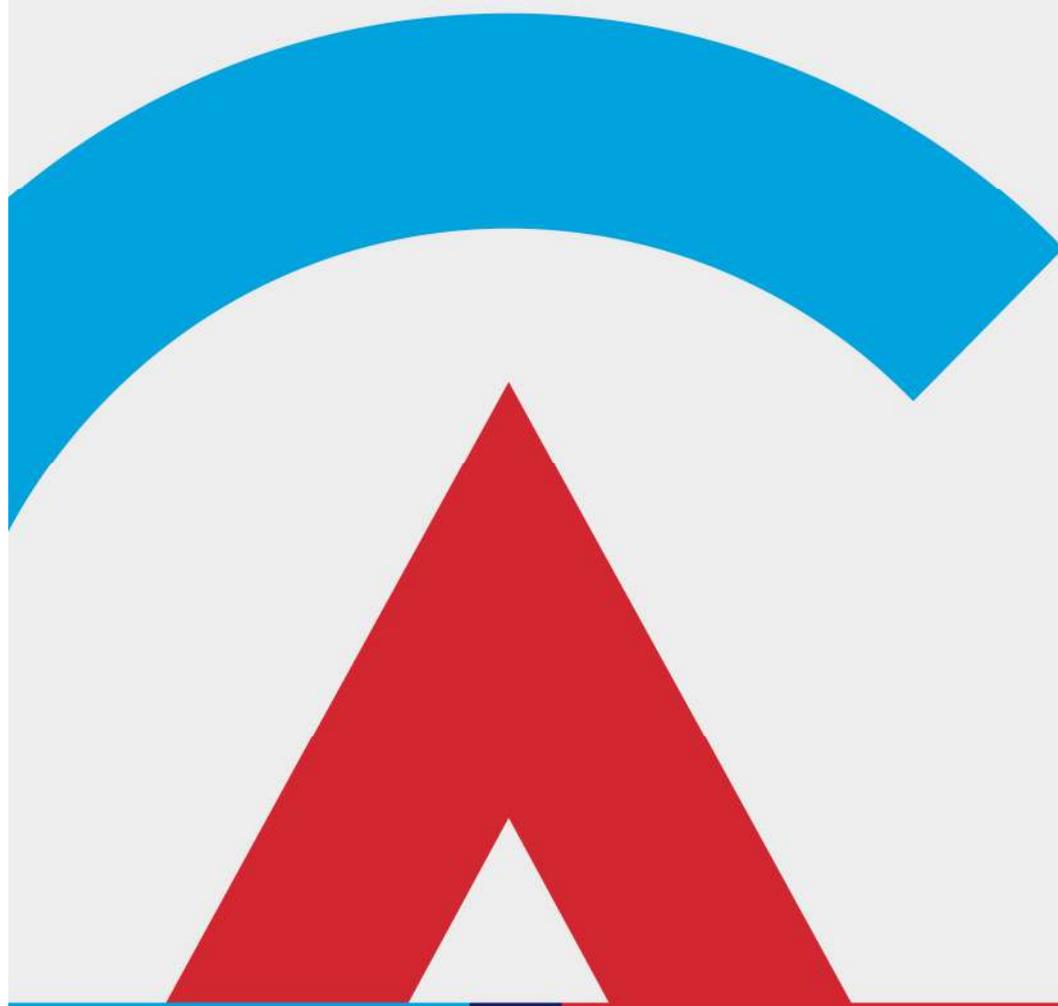


Audit, Assurance and Related Services

August 2018



Introduction

This material is designed to assist you when discussing audit, assurance and related service offerings with your clients. It contains a number of parts which explain, in simple language, what these service offerings mean for a small business.

It is anticipated that you will use those sections relevant to your particular client or potential client in conjunction with your firm's material.

The first part provides context and material on ethical standards. This is relevant to all types of services, and therefore it is expected that you will provide this to all clients.

The subsequent sections set out basic information on the following types of service:

- Audit engagement
- Review engagement
- Compliance engagement
- Agreed-upon procedures engagement
- Compilation engagement

A table, providing an overview of each type of service and the standards that apply, is supplied at the end of this material.

Why have an audit, assurance or related service?

You may want to demonstrate to various stakeholders, such as investors, the bank or regulators, that your business correctly accounts for funds entrusted to it. These claims are more credible when you have an audit, assurance or related service carried out by a respected professional.

In many cases, your business may be required by legislation, regulation or contract terms to engage a Chartered Accountant to undertake a certain type of service. For example, financiers may seek assurance that you are complying with the terms of the loan.

Involvement of a Chartered Accountant helps to increase trust, benefiting both your business, and your working relationships. It may also decrease the cost of doing business because the rigour of the service may assist the business become more efficient.

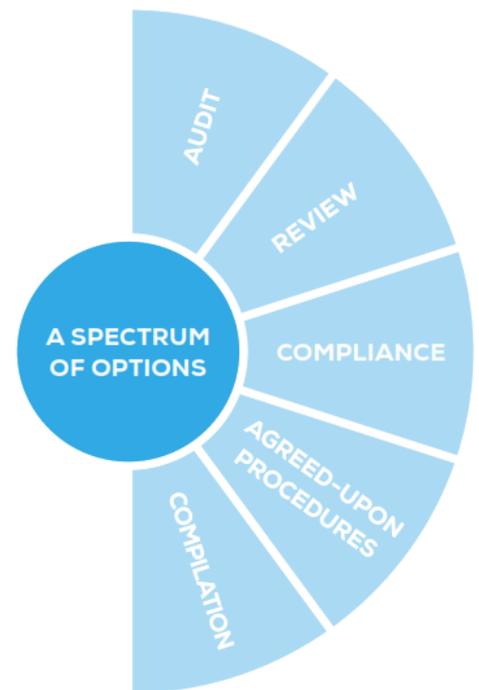
What is an audit, assurance or related service?

Broadly, the types of service your Chartered Accountant can offer fall into "assurance" or "non-assurance" services. Some usual types of engagement for each type are listed here:

| Assurance | Non-Assurance |
|--|---|
| <ul style="list-style-type: none"> • Audit engagement • Review engagement • Compliance engagement | <ul style="list-style-type: none"> • Agreed-upon procedures engagement • Compilation engagement |

Each of these are covered by the professional standards that a Chartered Accountant must follow, and are designed to provide those relying on them with varying levels of information and trust.

There are specific definitions and explanations for words such as "audit", "review" and "assurance" which are unique to the profession and can sometimes cause confusion as these definitions are different to everyday usage.



How to know which to ask for?

In all cases, talk to your Chartered Accountant who will help ascertain what service will best suit your needs.

The first port of call will be to establish if, for your particular organisation, there are any specific legal or other requirements.

Sometimes your entity's own constitution or rules require a particular professional service to be carried out. If these founding documents have not been updated recently, they may not best reflect your current needs and it may be appropriate to amend the documents. Therefore, always discuss with your Chartered Accountant the source of the imposed requirement and other potential options.

Who to use for the service?

To be valuable, these services must be provided by a skilled and competent professional (or team of professionals). A Chartered Accountant meets this standard. To become a Chartered Accountant, an individual must:

- Have a higher education degree, and
- Undertake a detailed robust 3 year post degree qualification covering accounting, auditing, tax and corporate law.

Once qualified, your Chartered Accountant will continue to maintain and update their skills and will:

- Undertake a prescribed amount of relevant training every year.
- Follow the professional Code of Ethics which requires them, amongst other behaviours, to act in an ethical manner.
- Ensure they are independent where required. This means identifying and evaluating any threats to their independent status in relation to the engagement, making sure these are addressed, and demonstrating independence and objectivity through their actions, behaviour and conduct.
- Follow auditing, assurance and professional standards which require them to consider their competency to undertake work before accepting you as a client, and also set out requirements for how they conduct the service.
- Have a selection of their work reviewed by their professional body on a regular basis. This program monitors the standard of the work undertaken by all Chartered Accountants.

Audit Engagement

What is an audit?

In order to explain your business' financial performance, you will usually prepare annual accounts. There are rules around how to prepare these accounts, what to include, how items are valued, and what explanations to provide. For some businesses, these rules are the Accounting Standards (issued by the Australian or New Zealand Accounting Standards Boards). For other businesses, a regulator or bank may determine how you should explain your financial performance and what information should be included in your accounts.

An audit engagement provides a report. This report gives an opinion on the auditor's assessment of whether your account of the business' financial operations comply with the required rules or standards.

What do you get?

In the process of conducting the audit, the auditor gains a good understanding of your business and how you run it. This means they may be able to offer insights on your systems, operations or business risks. These may be very valuable as your business changes and grows, or if you want to stay efficient.

However, the main output of the audit process is an audit report. This simple report is the culmination of the results of all of the evidence the auditor has collected and activities they have undertaken. It explains the auditor's assessment of what and how you have reported, and gives their independent opinion on the account.

What should you expect?

Your auditor will undertake a range of procedures. These are to ensure that the auditor understands your business. The procedures also enable the auditor to formulate their opinion as to how accurately your business and its activities have been captured in the financial accounts. These procedures may include:

- Spending time with you and your staff asking questions to understand what your business did during the period, what rules are relevant, and how you prepared your accounts in accordance with the rules.
- Checking with third parties wherever possible to get their confirmation that they dealt with you, or had outstanding debts with you as you recorded in your accounts.
- Checking a sample of invoices, receipts and other paperwork to see whether it supports what you said in your accounts.
- Observing the operation of the controls you set up in
- your business to see how you are controlling the accurate recording of your finances and parts of the business that impact on what is recorded in the accounts.
- Challenging any estimates that you have made when recording matters in your accounts.

Auditing standards require the auditor to explicitly consider the risk that a fraud could have occurred. This will cause the auditor to ask you how you manage the risk of a major fraud in your business, as the occurrence of fraud may mean that the accounts misrepresent what actually happened. However, an audit does not always uncover fraud if it has occurred.

Are there different types of auditors?

In both Australia and New Zealand, the audits of certain regulated entities need to be undertaken by registered, licensed or qualified auditors. Outside of these areas, an audit should be undertaken by a suitably qualified accountant following auditing standards. A Chartered Accountant meets this standard. Auditing standards apply equally to regulated and non-regulated entities. Chartered Accountants are required to follow the professional Code of Ethics which requires them to be independent to carry out an audit engagement.



Review Engagement

What is a review engagement?

In order to explain your business' financial performance, you will usually prepare annual accounts. There are rules around how to prepare these accounts, what to include, how items are valued, and what explanations to provide. For some businesses, these rules are the Accounting Standards (issued by the Australian or New Zealand Accounting Standards Boards). For other businesses, a regulator or bank may determine how you should explain your financial performance and what information should be included in your accounts.

A review engagement assesses what you have done to prepare your account of the business' financial operations, and provides a report on whether anything came to the reviewer's attention suggesting that you did not follow the required rules or standards.

What do you get?

You will receive a simple report explaining the reviewer's assessment of what and how you have reported, giving their independent conclusion on the account. While this is a similar approach to an audit, the "level" of assurance is lower because of the more limited nature and extent of the procedures undertaken.

What should you expect?

To be able to give their conclusion, the reviewer will undertake some procedures to get a high level understanding of your business and how that business is reflected in the financial accounts. The procedures for a review engagement are primarily making enquiries, observing, reading and evaluating material. These procedures may include:

- Obtaining and reading the minutes of meetings of shareholders, directors or appropriate committees.
- Agreeing the financial statements to the trial balance and general ledger.
- Comparing results, percentages and ratios with those of prior periods and those expected for the current periods. Discussing significant variations, unusual fluctuations or inconsistencies with you.
- Discussing whether the recognition of major sales and expenses have taken place in the appropriate periods.
- Enquiring about the existence of related parties and how transactions with them have been accounted for.
- Enquiring about events after the balance sheet date that would have a significant effect on your accounts

At each stage the reviewer will evaluate what has been discussed, and should something not make sense, the reviewer will talk to you and your staff to obtain further explanations.

Review standards require the reviewer to explicitly consider the risk that a fraud could have occurred. This will cause the reviewer to ask you how you manage the risk of a major fraud in your business, as the occurrence of fraud may mean that the accounts misrepresent what actually happened. However, a review does not always uncover fraud if it has occurred.

Who should do the review?

In both Australia and New Zealand, the reviews of certain regulated entities need to be undertaken by registered, licensed or qualified auditors. Outside of these regulations, a review should be undertaken by a suitably qualified accountant following review standards. A Chartered Accountant meets this standard. Review engagement standards apply equally to regulated and non-regulated entities. Chartered Accountants are required to follow the professional Code of Ethics which requires them to be independent to carry out a review engagement.



Compliance Engagement

What is a compliance engagement?

You are responsible on behalf of your business for it meeting its various obligations. A compliance engagement assesses whether your business has adhered to specific requirements that may be set out in legislation, agreements or contracts. There must be suitable criteria against which compliance can be measured. The criteria will vary depending on the nature of the applicable requirements.

The subject matter for a compliance engagement can take many forms, for example compliance with health and safety procedures or compliance with the terms of a grant.

When undertaking a compliance engagement, the objectives of the accountant are to obtain assurance about whether the specified requirements have largely been complied with. A compliance engagement can be undertaken either as a “reasonable assurance” service, which will be quite extensive to report a positive opinion, or a “limited assurance” service, for which there are different types of procedures allowing the accountant to report that nothing has come to their attention to suggest non-compliance.



What do you get?

You will receive a simple report which clearly expresses the accountant’s conclusion on compliance in a form which reflects the procedures and findings.

What should you expect?

Depending on the specific requirements of any compliance obligations and the level of assurance sought, the procedures applied in a compliance engagement will vary. A compliance engagement may include procedures of the following nature:

- Spending time with you and your staff asking questions and analysing the responses.
- Recalculating amounts and estimates.
- Observing your operations and controls in relation to the subject matter.
- Inspecting your records.
- Obtaining confirmations from other parties.
- Re-performing your accounting procedures to test their accuracy and effectiveness.
- Obtaining corroborating information and documentation from independent sources.
- Requesting written representations from you.

Who should do the engagement?

In both Australia and New Zealand, compliance engagements for certain regulated entities need to be undertaken by registered, licensed or qualified auditors. Outside of these regulations, a compliance engagement should be undertaken by a suitably qualified accountant following the applicable assurance standards. A Chartered Accountant meets this standard. Compliance engagement standards apply equally to regulated and non-regulated entities. Chartered Accountants are required to follow the professional Code of Ethics which requires them to be independent to carry out a compliance engagement.

Agreed-Upon Procedures Engagement

What is an agreed-upon procedures engagement?

In an agreed-upon procedures engagement, you would discuss, and agree in writing, your specific information requirements up-front with an accountant who would then perform the set of procedures that will provide this information for you. Since this type of engagement is designed to provide specific information about particular matters, it will only cover that agreed aspect rather than the whole of your annual accounts.

Unlike an audit, review or compliance engagement, performing these procedures will not result in the accountant expressing an opinion or conclusion. The purpose of this type of engagement is only to provide the user with additional, objective information that they can then use to form their own opinion regarding specific matters. If the report is going to be used by another party, such as a bank, that party must also agree that the procedures are suitable to give them the additional information they require.

This type of engagement may be particularly useful to funders, as it can target the area that they are interested in, for example, giving specific information relating to a particular grant such as whether it was received and banked by the organisation, that specific items were purchased, or that specific wages were paid.

What do you get?

The accountant will perform the procedures and report the results on a factual basis, without the provision of an opinion or conclusion. The accountant presents the results of these procedures, leaving the agreed user to draw their own conclusions.

Reliance on the accountant's report is restricted to the party that requested the procedures to be performed. This is because others may be unaware of the reasons for the procedures, and therefore may misinterpret the results.

What should you expect?

The procedures will vary depending on requirements and needs. They may include such as enquiry and analysis, re-computation, comparison and other clerical accuracy checks, observation, inspection and confirmations.

Who should do the engagement?

Agreed-upon procedures do not usually arise because of regulation. The quality of the service depends on the skill, integrity, and experience of your accountant. Therefore, it is important that you make sure you use a suitably qualified accountant. A Chartered Accountant meets this standard. Agreed-upon procedures engagement standards apply equally to all entities.

Users of the information derive benefit because of the professional competence and due care with which the work is carried out and because of the ethical and professional standards which apply to the work Chartered Accountants perform.

Independence is not an essential requirement for this type of service, however it can enhance the quality of the service.



Compilation Engagement

What is a compilation engagement?

A compilation engagement requires the application of accounting and financial reporting expertise to assist with the preparation and presentation of financial information (for example; your annual accounts). Because financial reporting requires judgement, you may benefit from the assistance of a Chartered Accountant when making significant judgements. However, the accountant is not required to verify the completeness or accuracy of the information that you provide because no assurance is provided.

The accountant will read the financial information they have compiled, and consider whether it appears to be appropriate in form and free from obvious errors or omissions. They must also ensure that the financial information is consistent with their understanding of the organisation and with the information you provide and, to the best of their knowledge, with the basis of accounting on which the financial information has been prepared.



What do you get?

The accountant will compile the financial information from your records and prepare a report which is attached 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 opinion is expressed.

What should you expect?

The procedures employed in a compilation do not enable the accountant to express any opinion on the financial information or related matters. As well as compiling the information, the accountant may:

- Obtain a general knowledge of the business and operations, including the accounting principles and practices of the industry in which your business operates.
- Obtain a general understanding of the nature of business transactions, the form of the accounting records, and the basis on which the accounts are presented.
- Consider any estimates and judgments made by management and question those that appear unreasonable.
- For information that appears incorrect or incomplete, ask for additional information or explanation.
- Consider the suitability of the recording and/or classification of large or unusual transactions.
- Be alert to unexpected variances within account balances, non-disclosure of any known departure from statutory or regulatory requirement or any other significant departures from the required rules or standards.

Who should do the engagement?

Compilation engagements do not usually arise because of regulation. The quality of the engagement depends on the skill, integrity, and experience of your accountant. Therefore, it is important that you make sure you use a suitably qualified accountant. A Chartered Accountant meets this standard. Compilation engagement standards apply equally to all entities.

Users of the information derive benefit because of the professional competence and due care with which the work is carried out and because of the ethical and professional standards which apply to the work Chartered Accountants perform.

Independence is not a requirement for this type of service, although Chartered Accountants will always apply objectivity which is one of the fundamental principles in the Code of Ethics.

Overview of Assurance Engagements

| | Audit | Review | Compliance |
|-----------------------------|---|--|--|
| When is it useful? | When needing an independent opinion over a full set of historical financial statements. | When needing an independent conclusion over a full set of historical financial statements but not needing the cost and extent of an audit. | When needing an independent opinion over an entities compliance with clearly defined criteria. Criteria may be set out in legislation, agreements or contracts. |
| What is it? | <p>It involves assessing how the entity has prepared its financial statements and provides a report giving an opinion on whether the financial statements have been prepared in accordance with the accounting standards (or other applicable criteria).</p> <p>It provides “reasonable” assurance which is a high level of assurance, but not absolute.</p> | <p>It involves assessing how the entity has prepared its financial statements and provides a report giving a conclusion on whether anything suggests that the financial statements have not been prepared in accordance with the accounting standards (or other applicable criteria).</p> <p>It provides “limited” assurance which is a lower level of assurance than that provided by an audit.</p> | <p>The subject matter for a compliance engagement can take many forms, for example health and safety procedures, or terms of a grant- funding scheme. The objective is to obtain assurance about whether certain requirements have largely been complied with.</p> <p>There are two types of assurance referred to as “reasonable” or “limited”.</p> |
| What do you get? | An audit report which is worded in accordance with the requirements of the professional standards. It explains the auditor’s assessment of what and how you have reported and gives their independent opinion on the financial statements. | A review report which is worded in accordance with the requirements of the professional standards. It explains the reviewer’s assessment of what and how you have reported and gives their independent conclusion on the financial statements. | An independent accountant’s report which is worded in accordance with the requirements of the professional standards. It explains the accountant’s assessment of whether certain requirements have been complied with and gives their opinion on the compliance. |
| What can you expect? | <p>Auditors undertake a range of procedures to get a full picture of the business and how that business is reflected in the financial accounts. This will involve the auditor spending time with management and staff, checking facts with third parties, checking a sample of invoices, receipts and other paperwork, observing the operation of the controls, challenging any estimates or assumptions made by management.</p> <p>Auditing standards require the auditor to explicitly discuss the risk of a major fraud with management and others as part of the audit.</p> | <p>The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a review engagement are deliberately more limited than an audit engagement.</p> <p>A review is based on comparing information with other relevant information, reading and assessing material supporting the matters reported and talking to and asking questions of management and staff. It generally does not involve checking facts with third parties or testing records.</p> | <p>For a reasonable assurance engagement, the procedures undertaken will be similar in nature and extent to those of an audit engagement.</p> <p>For a limited assurance engagement, the procedures undertaken will be similar in nature and extent to those of a review engagement.</p> |

Overview of Non-Assurance Engagements

| | Agreed-Upon Procedures | Compilation |
|-----------------------------|---|--|
| When is it useful? | An agreed-upon procedures engagement provides additional reliable data that specific matters have been done. This type of engagement may be particularly useful to funders, as it can target the area that they are interested in, for example, giving specific information relating to a particular grant (e.g. that it was received and banked by the organisation, that specific items were purchased, or that a certain amount of wages were paid). | When accounting expertise is needed to compile and present financial information. Users of the information derive benefit through the professional competence and due care with which the work is carried out. This is because of the ethical and professional standards which apply to the work carried out. |
| What is it? | Specific tests to be undertaken by the accountant are agreed with the client or user. These procedures are not designed to support an opinion but are designed to provide a factual report to the user. | This is an engagement to compile financial information from underlying records. |
| What do you get? | A report on the factual findings resulting from the procedures that have been performed. (As agreed with you, I did xxxx and found yyyy). The report will 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. | A report that the accountant has compiled the information but that the procedures do not include verification or validation procedures and that no assurance is expressed. The compiled information will be attached to the report. |
| What can you expect? | The tests are usually recalculations, confirmations, and checks against original documents. The accountant is not evaluating or assessing responses. | The work involves undertaking the calculations and preparing the compiled information. The accountant will read the financial information they have compiled and consider whether it appears to be appropriate in form and free from obvious errors or omissions. They will consider whether the financial information is consistent with their understanding of the organisation 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. The accountant is not expressing any assurance and will not undertake work on the underlying information. |

It should be noted that all of these engagements are subject to professional standards which set out requirements for accepting the engagement, undertaking the engagement and reporting on the engagement. A Chartered Accountant is required to follow these professional standards which may require different procedures or reporting from that set out in legislation or agreements.

Overview of Options and Professional Standards

Audit, assurance and related services enhance the credibility of the information contained within the entity's statements so the users of those statements can make assessments and decisions with confidence.

Any assurance engagement requires you to first prepare the statement. This can be a full set of financial statements, or report on particular matters such as a Statement of Receipts and Payments or a report on compliance with grant conditions. In assurance terminology this is called the "subject matter".

For any of the types of assurance engagement, your Chartered Accountant will be undertaking procedures to test that subject matter against agreed "criteria". For example, for a full set of financial statements, this criteria will be the accounting standards or accounting policies that you used to prepare the accounts and for a grant report, this will be the terms of the grant agreement. The criteria has to be agreed in advance and available to the users of the assurance report.

Your Chartered Accountant will then undertake procedures. The nature, extent and type of procedure will depend on the level of assurance sought or type of engagement provided.

For any engagement, your Chartered Accountant is bound to apply the relevant professional standards as follows:

| Type of Service | Professional Standards | |
|-------------------------------|---|--|
| | Australia | New Zealand |
| All | Code of Ethics | Code of Ethics |
| Audit | Suite of over 30 auditing standards consistent with internationally developed standards covering responsibilities, planning, internal control, evidence, and reporting. Australian Auditing Standards: ASAs (based on International Standards on Auditing) | Suite of over 30 auditing standards consistent with internationally developed standards covering responsibilities, planning, internal control, evidence, and reporting. International Standards on Auditing (New Zealand): ISAs (NZ) (based on International Standards on Auditing) |
| Review | ASRE 2400 (based on International Standards on Related Engagements) | ISRE (NZ) 2400 (based on International Standards on Related Engagements) |
| Compliance | ASAE 3000 (based on International Standards on Assurance Engagements) and ASAE 3100 (a domestic standard) | ISAE (NZ) 3000 (based on International Standards on Assurance Engagements) and SAE 3100 (a domestic standard) |
| Agreed-Upon Procedures | ASRS 4400 (based on International Standards on Related Services) | APS-1 (based on International Standards on Related Services) |
| Compilation | APES 315 (based on International Standards on Related Services) | SES-2 (based on International Standards on Related Services) |

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