

18 July 2012

Assurance for Larger Registered Charities
Competition, Trade and Investment Branch
Ministry of Economic Development
PO Box 11473
WELLINGTON 6011

Discussion Paper, Auditing and Assurance for Larger Registered Charities

The New Zealand Auditing and Assurance Standards Board (NZAuASB) welcomes the opportunity to submit on the discussion paper issued by the Ministry of Economic Development.

The NZAuASB supports assurance being provided where the benefits of the assurance outweigh the costs, and it is in the public interest to do so. Should mandatory assurance in the form of audit or review engagements be introduced for large charities, we agree that the assurance engagement should be required to be performed by competent assurance providers in accordance with the auditing and assurance standards issued by the NZAuASB.

Our main concern with the proposed framework is that it provides for a level of assurance that may not always be able to be provided. For example, assurance providers may not be able to provide assurance if the charity has inadequate controls. However, we note that reviews will be optional rather than compulsory and it may be that in these circumstances an audit will end up being the most efficient form of assurance.

We are pleased to submit the feedback from the NZAuASB in the enclosed attachment.

Should you have any queries concerning our submission please contact Sylvia van Dyk (Sylvia.vandyk@xrb.govt.nz).

Yours sincerely,



Neil Cherry
Chairman – New Zealand Auditing and Assurance Standards Board

Attachment: Submission of the New Zealand Auditing and Assurance Standards Board on the Discussion Paper, Auditing and Assurance for Larger Registered Charities

Questions 1- 4

No comments

Question 5

Assuming that mandatory assurance was to be introduced for large registered charities, do you consider that (a) all large charities should be required to have an audit completed or (b) that 'less large' charities should be required to have an audit or review completed and 'more large' charities should be required to have an audit completed?.

There is an inherent risk that the proposed framework requires a level of assurance that cannot be provided. For example, assurance providers may not be able to provide any assurance if the charity has inadequate controls. The risk of an assurance provider being unable to provide assurance is much higher for smaller entities.

For example, in a review of financial statements, the assurance provider performs procedures, comprising primarily inquiry and analytical procedures. Draft ISRE 2400 requires the assurance provider to consider whether the data from the entity's accounting system and accounting records are adequate for the purpose of performing analytical procedures. The review engagement may only be accepted if the assurance provider can achieve the objectives specified for the engagement. Depending on the circumstances, an assurance provider may believe that performance of an audit engagement would be more appropriate than a review.

Question 6

No comment

Question 7:

Do you prefer Option A, Option B or another option in relation to assurers' qualifications?

The Board agrees with the proposal that all assurance engagements should be carried out by qualified accountants. We agree that this should apply to reviews as well as audits. There is a misconception that reviews are less complex than an audit but this is not necessarily the case. To do a review that meets the requirements of the applicable standard the assurance provider needs to be competent in the assurance skills and techniques required for a review, have a sound understanding of the environment in which the entity operates, have significant experience in carrying out assurance engagements and requires professional judgement to assess whether the responses to their inquiries and analytical procedures provide a sufficient basis to support their opinion. Arguably, an assurance provider needs to be more skilled and competent to do a review if the assurance provider is not also the incumbent auditor.

The requirement to be competent in assurance skills for a review engagement is in line with the requirements of the recently approved draft International Standard on Review Engagements ISRE 2400¹. For example:

¹ The NZAuASB will consider ISRE 2400 as a replacement for the current NZ review standard RS-1 at the next meeting in August. The NZAuASB's strategic approach in developing auditing and assurance standards is to adopt those

- Draft ISRE 2400 requires the engagement partner to possess competence in assurance skills and techniques, and competence in financial reporting, appropriate to the engagement circumstances. The engagement partner also needs to be satisfied that the engagement team collectively has the appropriate competence and capabilities, including assurance skills and techniques and expertise in financial reporting.
- Also, in accordance with Draft ISRE 2400 the distinguishing feature of the professional judgement expected of the practitioner is that it is exercised by a practitioner whose training, knowledge and experience, including in the use of assurance skills and techniques, have assisted in developing the necessary competencies to achieve reasonable judgements.

Questions 8-12

No comment

applicable international auditing and assurance standards, and will consider modifying those standards only if there are compelling reasons to do so. The references are to the latest Draft ISRE 2400, as the final has not been released.