





Addressing the Scope of Assurance – NZ Perspective

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- Where are we at now?
 - Research on limited assurance in NZ
 - NZICA Professional Standards Board and the changes
 - Where to in the future?


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- **Where are we now?**
 - **Current framework**
 - **Audits and Reviews of Historical Financial Information – ISA (NZ), RS-I and RG-I, ISREs (as they become available in NZ)**
 - **Assurance Engagements Other than Audits or Reviews of Historical Financial Information – ISAEs**
 - **Types of Assurance Engagement – Reasonable assurance and Limited assurance**


Research on limited assurance in NZ

- By Nives Botica Redmayne (Massey University) and Sue Malthus (NMIT)
- Motivation: IFAC 2002, ISAE 3000 study *Assurance engagements other than audits or reviews of historical information*, Hasan et al. (2005) *The different types of assurance and levels of assurance provided*, anecdotal evidence, involvement on PSB.

- Two conceptual models on the level of assurance:
 - ***Interaction of variables model*** - level of assurance is matter of professional judgement taking into consideration the interrelationship between four factors: subject matter, criteria, procedures (work effort) and quantity and quality of evidence,
 - ***Work Effort model*** – level of assurance is achieved in two stages – stage one: consider users needs and cost of supply, stage two: perform procedures to obtain evidence – subject matter and criteria are prerequisites in accepting the engagement


- Findings of IAASB (2002) study and Hasan et al. (2005):
 - Two conceptual models interact – depending on what the subject matter is the work effort interacts with specific criteria and a combination of all four variables in *Interaction of variables* model is considered in determining the appropriate level of assurance - subject matter is the first consideration and determines the level of assurance
 - Other findings:
 - difficulty in understanding limited/moderate assurance compared to reasonable assurance
 - difficulties with reporting format – negative vs. positive expression of opinion, issues with modifications/qualifications of negative assurance

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- **Botica Redmayne and Malthus study – aim:**
 - to provide empirical evidence regarding supply and demand of non-audit assurance engagements (limited assurance engagements) – two phases: Phase I – supply, Phase II – demand.

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- Phase I – supply – research questions:
 1. Who supplies limited assurance engagements in NZ ?
 - How prevalent are they?
 - What types of limited assurance are provided?
 - What are the reasons for non-supply?
 - What types of organisations are supplied limited level of assurance in NZ?
 2. What level of confidence is associated with limited vs. reasonable assurance in NZ?
 3. How are limited assurance engagements done – consideration of risk adjusted procedures?
 4. How is the level of assurance communicated (and should this change)?

- **Methodology:**
 - Questionnaire based and adapted from IAASB (2002) study – NZICA framework, feedback from Professor Roger Simnett and Professor Phil Gendal, pilot-tested on PSB members.
 - Two questionnaires – more complex for Big 4 + Audit NZ (ANZ), simpler for medium and small practices
 - Electronic survey of 1,685 chartered accountants' practices in NZ – via NZICA (chartered accounting firms on data base) – July 2010.

- Preliminary results:
 - **Non Big 4 + ANZ** – 55% response, 10% supply limited assurance
 - 70% of respondents in 1-2 partner firms, 64% of respondents partner or director, 32% over 30 years of experience, 34% 20-30 years of experience
 - 69% of respondents – limited assurance less than 10% of their assurance work in the last 12 months
 - **Big 4 + ANZ** – 100% response, 100% supply limited assurance
 - 100% of respondents partners or equivalent, all over 10 partners firms, 15-30 years of experience, assurance is the main part of service offering.


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- What is supplied?
 - Non Big 4 + ANZ:
 1. Review of historical financial statements
 2. Audit of historical financial statements
 3. Review of prospective financial information
 4. Other: audits of real estate trust accounts, ministry of education reviews, special investigations, internal control reviews, limited audits (balance sheet), probity audits, gaming licence audits, audits and reviews for societies


- **Big 4 +ANZ**

1. Limited assurance on historical information (frequent, 50% of one firm's assurance services)
2. Assurance of prospective information (not that frequent, mix of limited and reasonable assurance)
3. Assurance on non financial information – environment, disclosure, service performance (not that frequent, mostly limited assurance, ANZ provides reasonable assurance on public entities' disclosures)
4. Assurance on systems & procedures – internal controls (varied in frequency, mostly limited assurance)
5. Assurance on behaviour - compliance with regulation – energy sector, corporate governance (not that frequent (2/4 Big 4), ANZ very frequent with reasonable assurance)

What are the reasons for non-supply (in the order of importance of reasons)?

Non Big 4 + ANZ	Big 4 + ANZ
1. Lack of demand	1. Limited usefulness of reports
2. Legal liability	2. Difficulty in understanding the level of assurance
3. Other (“outside of area of expertise”, “we have completely exited this work”)	3. Difficulty with subject matter/criteria
4. Cost	4. Lack of demand
5. Difficulty in understanding level of assurance	5. Cost
6. Limited usefulness of reports	6. Legal liability
7. Lack of adequate standards	7. Lack of adequate standards
8. Difficulty with clarity of subject matter/criteria	8. Other -

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- What would help to supply?
 - **Non Big 4 + ANZ:** procedures summaries, manuals, guidance, checklists, specific guidance, software, raising public awareness/demand, “the lines between audit and review need better definition”
 - **Big 4 + ANZ:** specific standards do/would help


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- What types of organisations receive limited assurance in NZ (in order of frequency)?
 - Non Big 4 + ANZ: clubs, charities, companies, trusts, other (PTE's, churches, PTA's, community groups, early childhood centres, providers of sports grounds), partnerships, sole traders.
 - Big 4 +ANZ: companies, (reviews of historical financial information mostly), public entities, clubs, charities, trust and partnerships (not very frequent for the last four types of entities).

- What level of assurance is associated with limited assurance vs. Reasonable assurance in NZ?
 - (IAASB 2002 study: limited assurance 57-63%, reasonable assurance 88%)
 - Limited assurance


	Min	Max	Mean
Big 4 + ANZ	15%	80%	50%
Non Big 4 + ANZ	20%	100%	72%

- Reasonable assurance

	Min	Max	Mean
Big 4 + ANZ	60%	95%	80%
Non Big 4 + ANZ	40%	100%	87%

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- How do you do limited assurance engagements (answers from Big 4 + ANZ)?
 - Use risk based approach
 - 2 out of 4 – adjusted procedures significantly based on risk approach
 - All obtain understanding of internal controls -2 out of 4 think that limited assurance engagement can not be performed where internal control system is weak or underdeveloped and would decline the engagement

- How is the level of assurance communicated:
 - **Non Big 4 + ANZ:**
 - 91% of respondents by negative assurance report, 9% not using that format (using specific formats, “sometimes it depends on the work required to complete and what results are, what makes sense to the client”)
 - 56% of respondents believe that their clients “somewhat” understand the report, 21% yes – understand and 21% no-do not understand.



- **Big 4 +ANZ:**

- All use negative report or specific reports (especially in the case of ANZ non-audit assurance engagements)
- 3 out of 5 respondents consider that positive form report would be beneficial
- No recent innovations
- A report should specify: responsibilities of client's governing body, responsibilities of the reviewer/assurance provider, limitations of the engagement, emphasis that the limited assurance engagement is not an audit, prescribed standardised minimum disclosure.

- **Conclusions on the Botica Redmayne and Malthus research:**
 - Well defined suppliers' market – Big 4 + ANZ vs. Non Big 4 – specialisation and segmentation of the market already occurred
 - **Non Big 4** perceive lack of demand for limited assurance, legal liability, no clear distinction between levels of assurance and cost (could be due to overdoing the procedures)- important issues – need for specific guidance – this market fits well with Work Effort model
 - **Big 4 + ANZ** perceive lack of usefulness of the report (demand issue or use of negative reporting?), difficulty in distinguishing the level of assurance, difficulties with subject matter/criteria) – more sophisticated suppliers but still would prefer more specified procedures and reporting guidance
 - Reasonable assurance level seems to be much better understood by both groups of suppliers

NZICA Professional Standards Board and the changes

- The Board supports the changes – public interest focus, interested in increasing assurance/audit quality, perceives as advantageous to the profession that standard setting is independent from the profession, especially perceptions of NZ assurance/audits in international settings
- The Board is proud of the work on ISA (NZ) – good quality standards with careful consideration to detail in NZ setting.

Where to in the future?

- IAASB ED on ISRE 2400 Engagements to Review Financial Statements – likely in December 2010/January 2011
 - Heavier emphasis on pre-engagement conditions – when is a review not suited?
 - Better clarification on how risk of material misstatements informs the performance of review procedures – formal risk assessment to be undertaken, “risk informed” procedures
 - Where results of the review indicate material misstatement – requirement to pursue – including audit-type procedures – where does the audit engagement finish and an audit starts?
 - The basis for the conclusion? – if primarily procedures based than “sufficient and appropriate evidence” for a conclusion “based on the work done, nothing has come to my attention that causes to believe” – not that logical. Modifications of negative reports?