AUDITNEWS

Issue 2 / 2016

MOORE STEPHENS

AUDIT AND ASSURANCE

A change in the format of your audit report

For organisations with balance dates on or after 15 December 2016, you will notice a change in the format of your audit report. This is due to a change in the international auditing standards governing audit reports.

According to the IAASB, the body that writes the international auditing standards, (which are then implemented in New Zealand by the XRB/NZAuASB), the intended benefits of the new audit report format are as follows:

- Enhanced communication between auditors and investors, as well as those charged with governance
- Increased user confidence in audit reports and financial statements
- Increased transparency, audit quality, and enhanced information value
- Increased attention by management and financial statement preparers to disclosures referencing the auditor's report
- Renewed auditor focus on matters to be reported that could result in an increase in professional scepticism
- Enhanced financial reporting in the public interest.

Changes to the audit report for all organisations include:

- Moving the opinion section, the most important part of the report, to the top of the report
- Including a new 'basis for opinion' section
- Specifically mentioning in the audit report that assessing going concern is a responsibility of governance
- Cross-referencing auditor's responsibilities to the XRB's website - https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Description_Auditors_responsibilities.aspx
- Disclosing the name of the engagement partner for issuers and FMC reporting entities considered to have a higher level of public accountability.

Key Audit Matters

Following the basis for opinion section, organisations that are listed issuers will notice an additional section in their audit report, called Key Audit Matters. This section will also be in the audit reports of FMC reporting entities considered to have a higher level of public accountability for periods ending on or after 31 December 2018.

According to the new auditing standard ISA(NZ) 701, Key Audit Matters (KAM) are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters which are communicated with the organisation's governing body.

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WELCOME

2016 has been a busy year for the Moore Stephens audit team with changes in the financial reporting framework, as well as the increased professional compliance requirements.

In this newsletter, our last for the year, we take the time to look back at some of the common issues we have come across during 2016, and take a look forward to the upcoming new audit reporting standards. We provide some reminders to reduce the risk of fraud in your organisation and give you an update on what's happening in our teams around the country.

WHAT'S INSIDE

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A change in the format of your audit report

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The description of each KAM in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

a) Why the matter was considered one of most significance in the audit and therefore, determined to be a key audit matter; and

b) How the matter was addressed in the audit.

If your organisation requires KAMs to be in the audit report, during the audit we will discuss with you what KAMs we will include.

Summary of the changes in the format of the audit report

Current format	New format
Independent auditor's report	Independent auditor's report
Addressee	Addressee
Introductory paragraph	Auditor's opinion
Governing body's responsibilities for the Financial Statements	Basis for opinion
Auditor's responsibilities for the audit of the financial statements	*Key audit matters [for certain entities only]*
Auditor's opinion	Governing body's responsibilities for the financial statements
Signature of the auditor / audit firm	Auditor's responsibilities for the audit of the financial statements
Name of audit firm (being your local Moore Stephens office)	*Name of the engagement partner [for certain entities only]*
Auditor's address	Signature of the auditor / audit firm
Date of the auditor's report	Name of audit firm (being your local Moore Stephens office)
	Auditor's address
	Date of the auditor's report

2016 a year in review

With the end of another year, we have taken the time to look back at some of the common issues our team has come across in 2016.

Statement of cash flows

This year has been the first year for many Tier 3 charities who have been required to prepare a statement of cash flows. It is important to remember that this statement only records cash transactions, so transactions like depreciation, loss on sale or unrealised foreign exchange gains cannot be included. The cash and bank figure in the reconciliation should be the same as that which is shown in the Statement of Financial Position.

Use or return grants – Tier 3 not for profits

With the new financial reporting standard, charities must consider whether grants that they have received are on a use or return basis. That is, if you don't spend all the grant, do you have to return the unused portion or can you keep it.

In some cases, we noted funding received from groups that carried a 'use or return' clause were not initially recorded as liabilities. These have subsequently needed to be adjusted.

PBE SFR-A (NFP) standard clause A65 states "Where revenue has conditions attached, it is necessary to determine whether those conditions lead to a liability. Revenue that has a 'use or return' condition, shall initially be recorded as a liability until the condition has been met, at which point the revenue shall then be recorded." We recommend that a register is kept to record all funding contracts that carry an explicit 'use or return' condition. This will then assist with the identification of the year end liability.

GST reconciliations

Despite all best intentions sometimes the GST account in the general ledger doesn't reconcile to the GST return at balance date. We find that this is commonly from either transactions being incorrectly recorded in the ledger or transactions being missed from the GST return. To solve the issue, prepare a GST reconciliation each time a GST return is prepared to ensure everything is captured correctly. Also, ensure care is taken when processing transactions into the ledger to ensure they are recorded at the correct time.

We recommend that you align your GST return period with your balance date, as it is a much simpler process to reconcile GST at year end when your GST return date is the same as your balance date.

Authorisation of expenditure

As auditors, we like to see that expenditure has been appropriately approved; this is usually by a signature appearing on an invoice or on a schedule of payments made for the month. This is an important internal control procedure as it shows that someone has considered the reasonableness of the expenditure and it provides accountability inside the organisation. For smaller organisations, we encourage the governing body to review the month's expenditure and document this in the minutes as well.

Spreadsheet issues

The use of Microsoft Excel is common in many organisations today. It is commonly used to produce monthly schedules, journals and reconciliations. We have found instances where a previous month's spreadsheet has been overwritten with the next months, thus eliminating the audit trail or electronic data record. To prevent accidentally over-writing important spreadsheets (such as monthly reconciliations), save your files as read-only once they are completed.

Fraud

Fraud involving unauthorised payments has been in the news a lot lately. Therefore, it is a good time to review your entity's payment and approval process. We have prepared a few tips for you to consider:

01. Have two or more people approving payments (whether by cheque, electronic, or automatic payment)

02. Ensure all payments and accruals have supporting documentation. This documentation should include approvals, both authorising the invoice and authorising the payment

03. If purchases are made where purpose is difficult to determine (eg. cafe purchases), ensure the purpose of the expense is noted

04. Do not allow those with the ability to approve invoices to pay them

05. Regularly review electronic banking systems to check people have appropriate levels of access

06. Ensure petty cash and bank accounts are regularly reconciled

07. The governing body, or the finance subcommittee, must review and be aware of payments made

08. Double check bank account numbers in online banking payments

09. Check appropriate segregation of duties are in place.

TEAM NEWS

For opening hours over the holiday period, please refer to our website or Facebook page: www.facebook.com/moorestephensauditnz

Wellington

Bruce Mcniven, who has just reached the nine-year mark with the firm, was recently appointed as Assurance Support Manager.

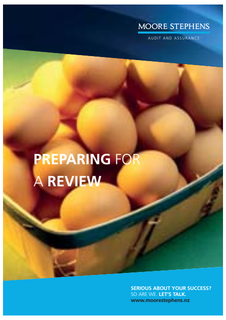
We also appointed Simon Smith as Assistant Manager.

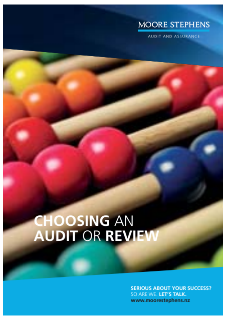
Pride Awards

Our team recently attended the Pride Awards Ceremony held in Parliament. The Pride Awards recognise and celebrate the successes, achievements and contributions of young people in the Wellington region. We are proud to have sponsored this trust from its inception, and congratulate all winners. For more information on the Pride Awards, please see their website www.prideawards.org.nz

Hawke's Bay

We welcome Diana Berry to the audit team. Diana joins Graeme as auditor in the Hastings office.





New resources on our website

To assist clients in understanding the audit and review process, as well as provide information on choosing between an audit or review, we have three new brochures on our website:

- Preparing for an audit
- Preparing for a review
- Choosing an audit or review.

To find these, go to the www.moorestephens.nz/audit resources section.

Should you have any questions about any of the articles in this newsletter, please contact your local audit team.

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