

assurance adviser

Grant Thornton 

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Ready to sign your financial statements?

The audit has been completed and the Board or Trustees are ready to sign the final financial statements. What questions should the Board or Trustees raise in relation to final sign-off of financial statements?

- Has the external auditor resolved all outstanding queries?
- Have all independent or third party confirmations been obtained?
- Has the audit committee/board had a clearance meeting with the external auditors?
- Are you satisfied that the financial statements comply with the appropriate financial reporting standards, as well as any other relevant legislation?
- Has the board ratified issues in relation to any contentious items?
- Is the board satisfied that the going concern concept is appropriate?
- Has the Board been given final clearance from the external auditors?
- Are any estimates, within the financial statement or events since balance date, that may reflect on the financial statements to balance date, been reflected within the financial statements?

What's new for 31 December 2002 financial reporting?

SSAP 8 - Accounting for Business Combinations has been replaced by three financial reporting standards:

- FRS-36 Accounting for Acquisitions Resulting in Combinations of Entities or Operations
- FRS-37 Consolidating Investments in Subsidiaries
- FRS-38 Accounting for Investments in Associates.

These standards apply to all general purpose financial reports covering periods ending on or after 31 December 2002.

FRS-37 will be of particular interest to those organisations with subsidiaries who have not previously prepared consolidated financial statements and have made additional note disclosures instead.

The standard requires that an entity with one or more subsidiaries at its balance date must present consolidated financial statements.

Subsidiary is defined as an entity that is controlled by another entity.

Determining whether you control the entity is therefore of utmost importance.

Control by one entity over another entity exists in circumstances where the following parts (a) and (b) are satisfied:

- (a) the first entity has the capacity to determine the financing and operating policies that guide the activities of the second entity; and
- (b) the first entity has an entitlement to a significant level of current or future ownership benefits.

Appendix 2 of the Standard provides a decision tree to help assess the existence of control.

All organisations with subsidiaries who are not consolidating should closely review the impact FRS-37 will have on their financial reporting.

Auditor Independence - a hot topic

Recently the issue of auditor independence has been the subject of much debate. The US Securities and Exchange Commission (SEC) has been leading the push for greater independence and the issue of provision of non-audit services. In Australia the recent major corporate collapses of One Tel, HIH, Harris Scarfe and Ansett have generated renewed public interest in relation to corporate governance generally and auditor independence in particular.

On 1 August the Institute of Chartered Accountants of New Zealand issued an Exposure Draft on the Code of Ethics: Independence.

This exposure draft is a proposed extension to the proposed Code of Ethics (2002) and:

- Establishes minimum professional requirements regarding independence of members who perform assurance engagements (including audit engagements and review engagements);
- Establishes a framework, based on principles, to be applied by members in identifying, evaluating and responding to threats to independence, and
- Provides examples regarding application of the principles to specific circumstances.

These proposals will bring the Institute's independence requirements into line with international developments.

The exposure draft raises many implications for Institute members who provide assurance engagements including:

- The need to review independence policies and procedures for monitoring independence from assurance clients;
- The need to identify potential threats to independence in respect of current assurance clients and the potential safeguards to reduce those threats and preserve independence. In particular:
 - The need to review the level and nature of other work provided to assurance clients;
 - The need to consider whether existing relationships with assurance clients may threaten independence; and
 - The need to consider whether the relative size and nature of the fees charged to assurance clients may impair independence.
- The proposal will affect firms of all sizes.

Grant Thornton has made a substantial investment in the development of a worldwide audit approach, and in the adoption of quality assurance procedures and training throughout the world.

We are committed to the highest standards of integrity and professionalism in our audit work.

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