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ASSURANCE AND RELATED SERVICES ON FINANCIAL STATEMENTS OTHER THAN AUDITS

The efforts of the International Auditing and Assurance Standards Board (IAASB) through 2008 were largely devoted to updating and revising its International Standards on Auditing (ISAs) as part of the IAASB Clarity Project.¹ Those efforts were responsive to the acknowledged need for a single set of high-quality international standards that can be applied worldwide for audits of financial statements.

The need for high-quality audits is widely acknowledged by policy makers concerned with promoting and maintaining confidence in financial reporting, whether in the context of capital markets or reporting by private or non-public entities. ISAs support performance of high-quality audits, and the prospect of achieving global acceptance and application of ISAs is assisted by the fact that they have been developed to apply to financial statement audits for entities of all sizes—an essential attribute that supports the principle that “an audit is an audit.”²

Some jurisdictions have considered whether a financial statement audit is the most appropriate level of service for all entities subject to their jurisdictional requirements. In some cases countries have introduced, or are considering introduction of, exemptions from financial statement audit requirements for certain entities, for example, based on the type or size of entity (“audit-exempt entities”). In large part, these developments have focused on non-public interest entities and, more particularly, small- and medium-sized entities (SMEs). While such entities may seek to have audits

on a voluntary basis, and the users of their financial statements (such as lending institutions) may request that audits be performed, the implication is clear—there is a market demand for services that are capable of meeting the unique needs of SMEs and the users of their financial information.

IAASB’s Project to Develop International Engagement Standards for Assurance and Related Services on Financial Statements Other than Audits³

The IAASB has placed high priority on addressing further the needs of SMEs. The IAASB’s strategic focus acknowledges that the IAASB has a leading role to play in exploring standards for a range of services, including services other than the financial statement audit that may be appropriate for such entities.

Over the last 11 months, the IAASB has followed an ambitious schedule to develop international engagement standards for financial statement services other than audits. Underpinning that effort is the desire to develop standards that can be applied globally to meet the financial reporting needs of SMEs, and lenders and other users of their financial statements.⁴

As its first step, the IAASB focused its efforts on revising two existing standards:

- ISRS 4410⁵ in relation to financial statement compilation engagements; and
- ISRE 2400⁶ in relation to financial statement review engagements.⁷

1 web.ifac.org/clarity-center/index

2 IFAC Policy Position 2: *IFAC’s Support for a Single Set of Auditing Standards: Implications for Audits of Small- and Medium-sized Entities* (September 2008)

3 Formerly referred to as the IAASB “Alternatives to the Audit” project

4 The IAASB concurrently has other projects underway for the development or revision of standards for assurance services other than audits or reviews of historical financial information. These standards focus on subject matters and information other than historical financial information, and are not discussed here.

5 International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*

6 International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*

7 ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, deals with the special circumstance where a financial statement review is performed by the auditor of an entity. ISRE 2410 is not included in the scope of this project.

While development of entirely new services might be possible, the IAASB's consultation, both as part of its 2009-2011 *Strategy and Work Program* and during the early stages of this project, supported a focus on addressing the financial statement review and compilation services. The feedback from stakeholders did not identify a need to develop another type of service at this stage. Rather, several advantages were identified in a focus on compilation and review engagements:

- Expediency, through leveraging existing standards.
- Experience, through capitalizing on national experience where review and compilation services have been provided for a number of years.
- Relevance, through making use of knowledge about market acceptance of these services in countries as an important input to establishing a platform of services practitioners may provide to address entities' diverse financial reporting needs.

This update further explains a number of contextual matters that influence the direction of the IAASB's project. It also outlines progress made to date with the project and the anticipated timetable going forward.

Services Other than Audits: The Context

Some general observations may be drawn about the environment in which assurance and related services other than financial statement audits are undertaken:

- Development of services on financial statements other than audits that address user needs relating to audit-exempt entities is a priority in many jurisdictions. To a large extent, the focus is on meeting the needs of non-public entities and SMEs.
- The needs of SMEs in relation to financial information and financial reporting reflect the different environmental circumstances of such entities. Relevant factors include: ownership and related governance and accountability arrangements; sources of funding and financing; related information needs of owners, creditors, and other stakeholders with an interest in an entity's operations, including national

authorities that have the ability to impose taxes or other types of levies; and the capacity such entities have to effectively address the complexities of financial reporting. Often, SMEs engage professional accountants to assist them in fulfilling their financial reporting obligations.

- The needs of SMEs for assurance and related services on various types of financial information often are addressed through assurance and related services⁸ (other than audits) and through combinations of services that satisfy a particular entity's specific needs. For example, a compilation service may be performed in conjunction with other services that cater to particular financial information needs.
- Users of services provided by professional accountants in relation to financial reporting often are challenged in understanding the nature of, and differences between, the various types of services that are available and the reports issued from such engagements. For example, it is commonly asked how audits differ from other types of assurance engagements, and how assurance services are different from other related services, such as compilations and agreed-upon procedures.
- Use of international standards provides users of practitioners' reports, and practitioners themselves, with a common understanding of the meaning and value of the services they provide, and assists development of a consistent, global understanding. International standards also provide inspection and oversight authorities with a common, high-quality, and generally accepted benchmark against which the performance of services by practitioners can be measured (e.g., for quality assurance purposes).
- A proliferation of other services, developed without reference to the international context, has the potential to result in fragmentation in practitioner reporting in different countries and regions of the world. This outcome could exacerbate general confusion among users about the services provided by professional accountants.

⁸ In addition to the ISAs, there are existing ISREs and ISRSs (compilation engagements and agreed-upon procedures engagements). The IAASB's standards for reviews and related services engagements are published in the 2008 *Handbook of International Auditing, Assurance, and Ethics Pronouncements*. The Handbook is available in electronic form on the IFAC website: web.ifac.org/publications/international-auditing-and-assurance-standards-board/handbooks

IAASB's Project Approach and Timetable

The IAASB is approaching the revision of its standards on review and compilation engagements from first-principles. While the existing standards provide a basis for discussion, questions of a fundamental nature are being explored to ensure that the standards developed will be relevant, for example:

- What are the needs of users, and how should the standards be designed to best meet those needs?
- How will the standards under development support services that are distinguishable from audits, in terms of work effort, reporting, and cost?
- What perceptions of users need to be addressed to promote acceptance and wide use of these services?
- How best should the results from the engagements be reported, such that they are clear and understandable to users? And how best to communicate the scope and limitations of the services?
- What are the practitioner's responsibilities in the context of each type of service, and how can consistency of practice best be achieved?

These are challenging issues. With the assistance of national standard setters and others, the IAASB's work has had the benefit of advance input from the global community,⁹ as well as the expertise and insight brought to bear by members of its international project task force.

While the objective of the IAASB's project at this stage is to revise the existing review and compilation standards, the IAASB understands that these services should be considered in terms of how they can be used in combination with other services to meet user needs. At present, reviews and compilations are able to be combined with agreed-upon procedures, when appropriate, to address an entity's unique needs in the area of financial reporting. The IAASB intends that its revised standards should continue to allow flexible use of reviews and compilations in combination with other services.

As part of its public consultation on the standards for compilations and reviews currently under development, the IAASB will seek input to the question of whether those standards may be expected to fulfill user needs, or whether there are remaining needs that those standards do not address. Feedback provided may serve as the basis for exploring whether and how those needs can be addressed, either through revision of existing international standards on related services or development of standards for new types of services for which there is clear, identifiable need.

The IAASB recognizes that time is of the essence: this project is of public significance, and progress at an international level is essential as individual countries contemplate domestic initiatives. However, high-quality international standards take time to develop, and adherence to due process—international dialogue, global consultation, and serious consideration of stakeholder views—is essential to delivery of quality and relevant standards.

The IAASB will further deliberate this project at its March, June, and September 2010 public meetings, with IAASB meeting agenda material publicly available on its website in advance of these meetings.¹⁰ The IAASB encourages all stakeholders to monitor progress of this project and to comment on the proposed standards scheduled for exposure later this year. Further information about this IAASB project is available through the project summary on the IAASB's website.¹¹

While significant deliberations still remain over the next several months, the IAASB is on schedule to issue proposed standards for public comment by the last quarter of 2010.

For information, the end of this document sets out brief information about the IAASB's existing international standards for assurance and related services on financial statements other than audits, and how they can be used to meet different entity needs in financial reporting.

⁹ A joint consultation paper was issued by staff of three national standard setters in September 2008. The paper and a summary of significant comments received can be found at www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0166&ViewCat=1054.

¹⁰ www.ifac.org/IAASB/Meetings.php

¹¹ www.ifac.org/IAASB/ProjectHistory.php?ProjID=0096

About the IAASB

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. For

more information about the IAASB, visit its homepage at www.iaasb.org.

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Information on Services Other than Audits that Relate to Historical Financial Information, and Related International Standards

What international standards exist for services other than audits, relating to historical financial information?

The IAASB has the following standards:

- ISRE 2400, *Engagements to Review Financial Statements*;¹²
- ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*; and
- ISRS 4410, *Engagements to Compile Financial Statements*.

These standards reference relevant ethical requirements¹³ that, taken together, establish an international basis for performance of these different types of services—reviews, compilations, and agreed-upon procedures—applying international ethical standards and quality control standards.¹⁴

In general terms, do these services involve assurance?

The review is an assurance engagement.¹⁵ The report issued by a practitioner for a review contains the practitioner's conclusion on the financial statements or other financial information reviewed by the practitioner, based on performing procedures that are limited in relative terms. The practitioner's conclusion on the financial statements is supported by evidence that provides a sufficient basis for expression of the conclusion in a manner that signals the limited assurance underpinning of the engagement.

Compilation engagements and agreed-upon procedures engagements are designed to be performed without the type of work effort that characterizes an assurance engagement and the resulting expression of an assurance opinion or conclusion. Accordingly, they are not assurance engagements, and reports provided do not express any opinion or conclusion on the underlying financial information that is the subject of the engagement. For clarity of understanding, reports provided in these engagements disclaim the expression of an opinion or conclusion.

The range of services represented by reviews, compilations, and agreed-upon procedures is characterized by different work effort and reporting by practitioners and, accordingly, the costs associated with these engagements differ between them.

How can these services be used to meet individual entity needs?

By first obtaining an understanding of the entity's reporting and business needs, practitioners can help entities determine the assurance or related service engagement that may best meet those needs. There is also scope to develop combinations of services for unique needs: for example, an entity that needs only limited assurance on its financial statements, but needs verification of a particular line item or balance, can supplement the review engagement with additional agreed-upon procedures.

12 See footnote 7. In addition, ISRE 2410 addresses the special circumstance where a financial statement review service is performed by the auditor of an entity.

13 The *Code of Ethics for Professional Accountants* of the International Ethics Standards Board for Accountants

14 International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, establishes quality control standards for firms' system of quality control for audits and reviews of financial statements, and other assurance and related services engagements.

15 The IAASB's *International Framework for Assurance Engagements* (web.ifac.org/download/2008_Auditing_Handbook_A055_Framework.pdf) describes assurance engagements in conceptual terms, and distinguishes limited assurance engagements, such as the review of financial statements, from reasonable assurance engagements. Limited assurance engagements are associated with reports that contain a negative form of expression of the practitioner's conclusion reported in such engagements, on the basis of performance of procedures designed to obtain evidence to support the practitioner's conclusion that are limited in relative terms (paragraphs 11 and 53).

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