



# Audit Quality Assurance Workshop

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# New International Standards



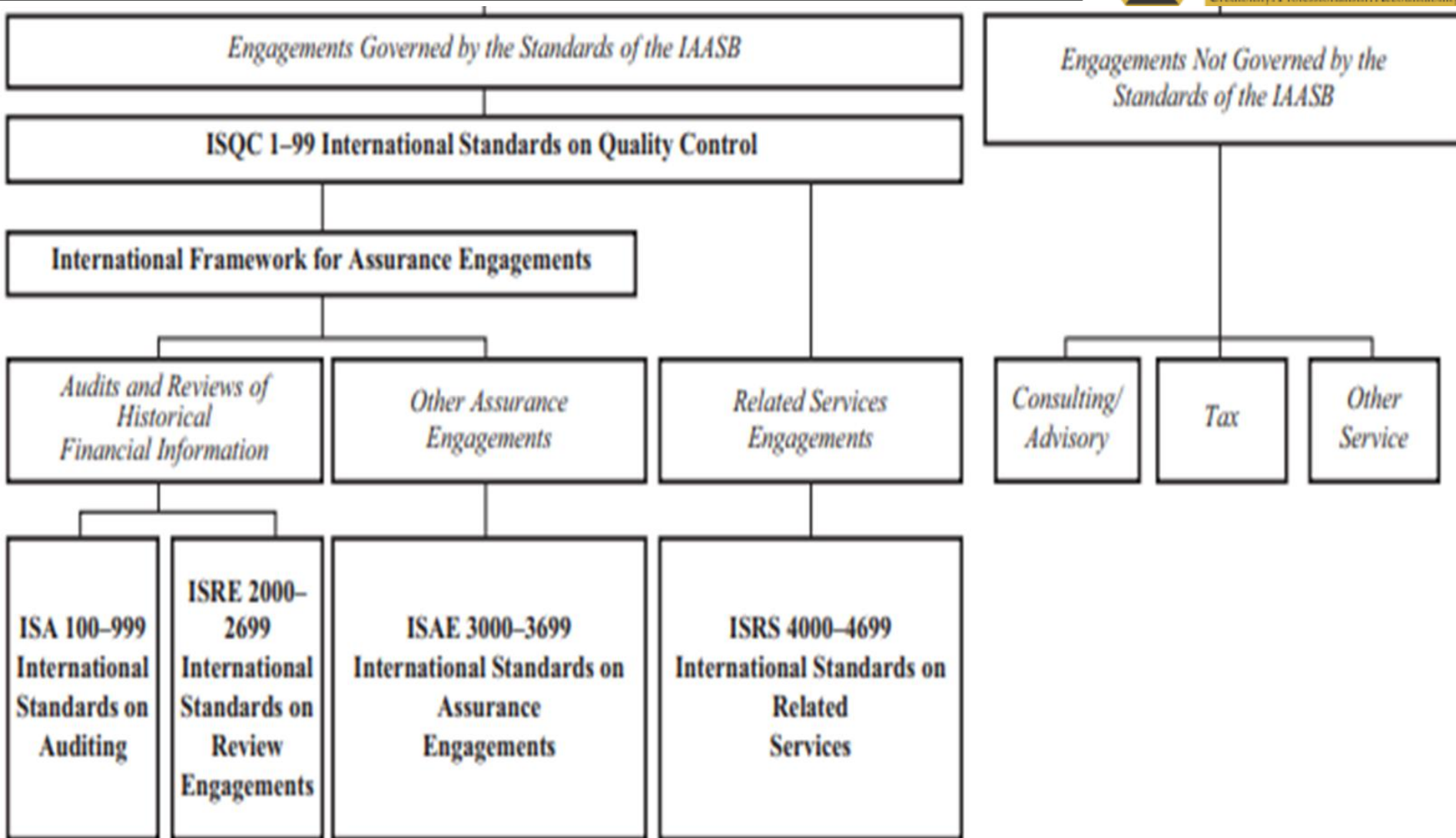
# Content



The new international standards:

- International Standards on Related Services (ISRSs)
- International Standards on Assurance Engagements (ISAEs)
- International Standard on Review Engagements (ISREs)

# The IAASB Framework



# Introduction



- With the increase in Small and Medium Entities (SME) there developed a need to respond to the changes in such business setups. Some regulatory requirements were introduced, one being the introduction of audit exemption thresholds especially for the smaller entities.
- Today, the SMEs are exempted from preparing audited financial statements. So what happens to entities that wish to maintain the credibility of their financial information? – The new international standards were thus introduced to supplement the previously existing International Standards on Auditing (ISAs), so as to allow for this feature.
- The engagements introduced by the new standards are of specific importance to entities that are not required to have an audit, but wish to enhance the credibility of their unaudited financial statements among their users, through the involvement of a practitioner
- Stakeholders of smaller entities can now opt for alternatives to an audit, such as the agreed upon procedures and review engagements.

# The IAASB Engagement Standards



To support the performance of these engagements, the IAASB formulates the standards to guide professional practitioners. These set of standards are collectively referred to as IAASB engagement standards and include:

- ❖ ISAs - are applied in the audit of historical financial information.
- ❖ ISRSs - are applied on compilation engagements, engagements to apply agreed upon procedures, and on other related services engagements as specified by the IAASB.
- ❖ ISREs - are applied in the review of historical financial information
- ❖ ISAEs - are applied in assurance engagements other than audits or reviews of historical financial information

# ISRS 4000: Engagements to Perform Agreed-upon Procedures Regarding Financial Information



- This standard provides guidance to professional accountants when performing an agreed upon procedures engagement, and in the preparation of an engagement letter and a report of factual findings.
- It's considered a more flexible type of engagement, as it can be tailored to different circumstances and focused to specific items of financial or non financial data.
- There has been increasing demand of the stakeholders interested in Agreed Upon Procedures (AUPs) such as lenders, and regulators. For example, regulators and lending bodies ask for AUP reports to support or complement information such as audited financial statements and loan or grant applications.
- Most entities engaged in AUPs are SMEs

# Some factors that contributed to this standard



- There is need for accountability especially around funding and grants.
- To support financial statements audits especially as required by regulators.
- Changes in regulatory requirements such as audit exemption thresholds especially for smaller entities. This forces stakeholders to opt for alternatives to an audit, such as the AUPs.

Subject matter on which an agreed upon procedure may be performed include:

- Report on the operation of internal controls over financial reporting
- Report on compliance with bank covenants
- Report on eligibility of expenditures claimed from a project

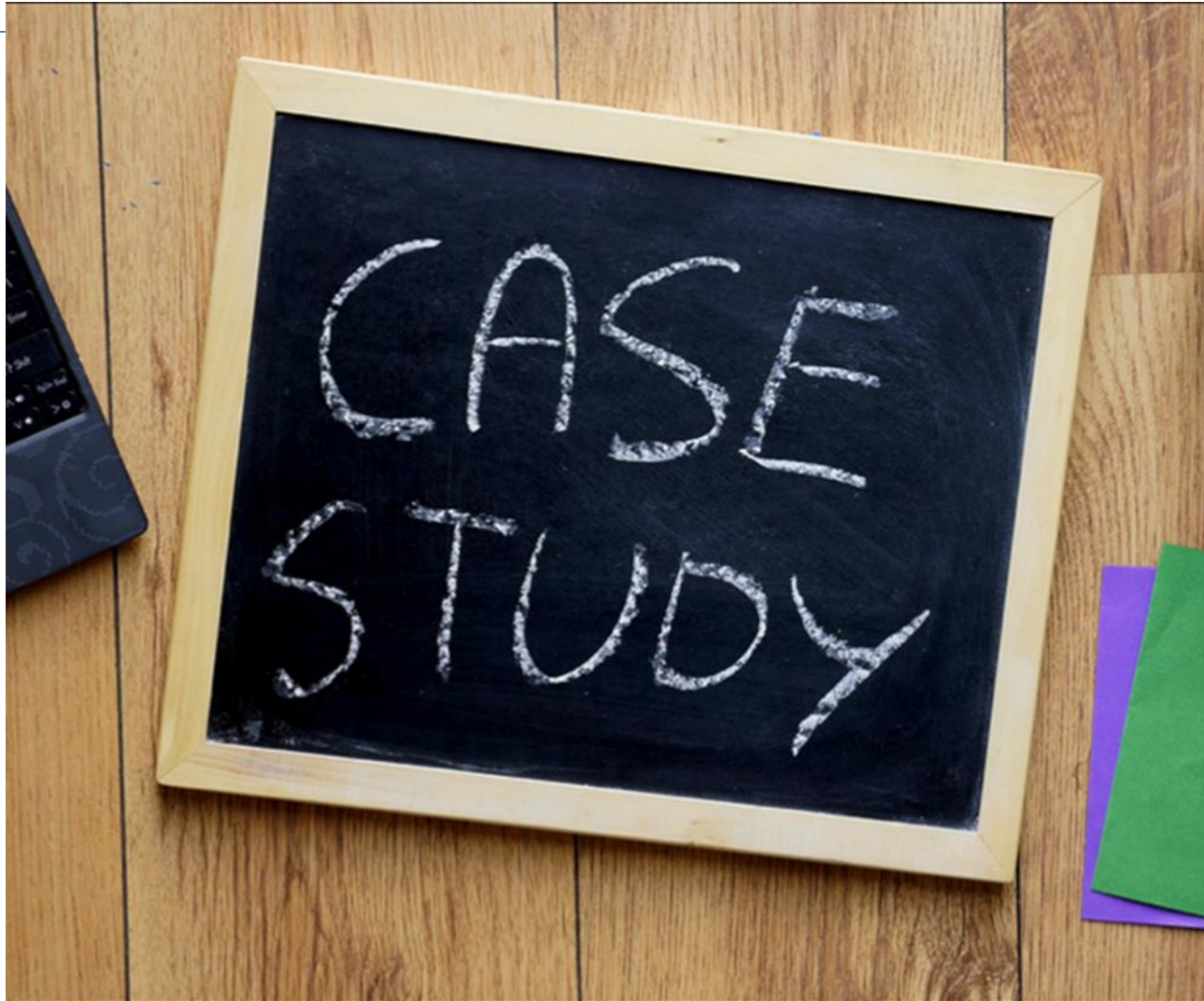


# AUP in a Public Sector Perspective



- Generally, the report an AUP is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.
- In the case of a public sector however, this characteristic is different:
  - The report in a public sector engagement may not be restricted only to those parties that have agreed to the procedures to be performed, but made available also to a wider range of entities or people. For example, a parliamentary investigation about a specific public entity or governmental department.
  - This can be attributed to the fact that public sector procedures involve matters of national importance hence making members of the public key stakeholders in the engagements.

# ISRS 4400 Case study



*Adopted from:  
Centre for Financial  
Reporting Reform  
(CFRR) World Bank  
Group*

*<http://siteresources.worldbank.org/EXTCENFINREPREF/Resources/4152117-1427109489814/GroupExerciseAUP.pdf>*

# ISRS 4410: Engagements to Compile Financial Statements



This standard can be used by accountants for a variety of engagements in which assurance report is not required.

Main characteristics of a compilation engagement:

- It does not constitute an assurance engagement
- The professional accountant is not responsible for verifying the completeness of the financial information prepared by the management. Their task only lies in assisting management in the preparation and presentation of financial information

But what happens in the instance where the practitioner becomes aware of misstatements of incomplete information?

- ✓ They should either request additional information, or recommend management to effect changes of correcting material misstatements. In events where management refuses to comply, the practitioner is required to resign from the engagement. Therefore this standard requires that a practitioner performs their work satisfactorily, or resign.

# Scope



- In this engagement, accountants use accounting expertise as opposed to auditing expertise; to collect, classify and summarize financial information.
- It entails reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information.
- The procedures employed do not enable the accountant to express any assurance on the financial information.
- However, users of the compiled financial information derive some benefit as a result of the accountant's involvement because the service has been performed with professional competence and due care.
- A compilation engagement at times includes the preparation of financial statements which may or may not be a complete set of financial statements but may also include the collection, classification and summarization of other financial information.

# ISRE 2400: Engagements to Review Financial Statements



- The objective of the standard is to provide guidance on the professional responsibilities of a practitioner when undertaking an engagement to review financial statements.
- It also sets out the form and content of the report to be issued by the practitioner at the end of the review.
- Contrary to ISRE 2410, the practitioner carrying out this type of engagement is not an auditor of the client entity.
- According to ISRE 2400, the practitioner prepares a report for the review engagement, describing whether anything has come to the practitioner's attention that causes the practitioner to believe the financial statements are not prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Unlike an audit, a review is a limited assurance engagement hence the procedures performed are substantially less than those conducted in an audit. Also, a practitioner's report for a review engagement does not express an opinion on the financial statements.
- The practitioner provides a moderate level of assurance that the information subject to review is free of material misstatement, expressing this in the form of negative assurance

# Sample procedures performed in an engagement to review financial statements



- Read the minutes of meetings of shareholders, the board of directors and other appropriate committees in order to identify matters that could be important to the review
- Inquire about plans to dispose of major assets or business segments
- Compare the results shown in the current period financial statements with those shown in financial statements for comparable prior periods and, if available, with budgets and forecasts
- Obtain explanations from management for any unusual fluctuations or inconsistencies in the financial statements
- Consider extraordinary and unusual items



# ISRE 2410: Review of Interim Financial Information Performed by the Independent Auditor of the Entity



- Objective: This ISRE enables the auditor to conclude whether, on the basis of the review, anything has come to the auditor's attention that causes them to believe that the interim financial information has not been prepared in all material aspects, in accordance with an applicable financial reporting framework.
- A review engagement does not express an opinion on whether the financial information gives a true and fair view.
- In contrast to an audit, a review is not designed to obtain a reasonable level of assurance whether the financial information is free from material misstatements

# Sample Report on Review of Interim Financial Information



(Addressee)

## ➤ Introduction

We have reviewed the accompanying balance sheet of XYZ Limited as of 31st December 2019 and the related statements of income, changes in equity and cash flows for the three-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with [indicate applicable financial reporting framework]. Our responsibility is to express a conclusion on this interim financial information based on our review.

## ➤ Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



# Sample Report on Review of Interim Financial Information



## ➤ Basis for Qualified Conclusion

Based on information provided to us by management, XYZ Limited has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with [indicate applicable financial reporting framework]. This information indicates that if these lease obligations were capitalized at 31st December 2019, property would be increased by \$400, long-term debt by \$60, and net income and earnings per share would be increased by \$300 for the period ended.

## ➤ Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not give a true and fair view and does not present fairly, in all material respects, the financial position of XYZ as at 31st December 2019, and of its financial performance and its cash flows for the period in accordance with (applicable financial reporting framework)

AUDITOR

Date

Address

# Break slide



# ISAE 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information



- This standard deals with the assurance of non-financial information
- Why the establishment of ISAE 3000?
  - Increased globalization and technological advancement has paved way for outsourcing. As a consequence of the increased IT outsourcing, organizations can now focus on core activities and outsource non-core processes.
  - Further, with the rise of outsourcing, there is need for organizations to better manage the risks involved with these outsourced services. More specifically, the user organization requires a degree of assurance that the service organization has a well-established internal control framework that is operating effectively. Regulatory authorities and supervisory boards also ask for specific controls over outsourced procedures.
  - The standard thus comes in to establish assurance over the decreased trust among parties, and to address the demand for security and control over security risks.

# ISAE 3000 in outsourcing



- A service organization provides services to a user organization. For the user organization, it is important how the service organization deals with security, privacy and fraud.
- The user organization may also require transparency on security procedures. In such an instance, the service organization provides a Service Organization Control (SOC2) report.
- SOC2 report is an internal control report that focuses on controls at a service provider, which are relevant to security, availability, processing integrity, confidentiality, and privacy of an organization. This report ensures that a service organization keeps data private and secure during processing and storage, and that data is accessible at any time.

# ISAE 3000



- SOC 2 reports issued under the ISAE 3000 standard are based on Trust Services Principles and Criteria.

## TRUST SERVICE CRITERIA



# Reporting



There exists two types of reports under this standard.

- Type 1 report: It contains the control framework at a specified point in time.
- Type 2: It reports on the operational effectiveness of the control framework for a min period of six months

# Example



- A software provider hosts applications for the government (the user organization).
  - The information processed in applications has no impact on financial reporting procedures.
  - The government requires the software provider to report on the effective operation of security measures.
  - In this case the service organization control report provided by the software provider will be audited by a professional accountant in accordance with the ISAE 3000.
  - The service auditor states in the assurance report that the security measures exist (type I) and operate effectively (type II).
- \* However, if the information processed in the applications would have had an impact on financial information (e.g. annual report), ISAE 3402 would be applicable.

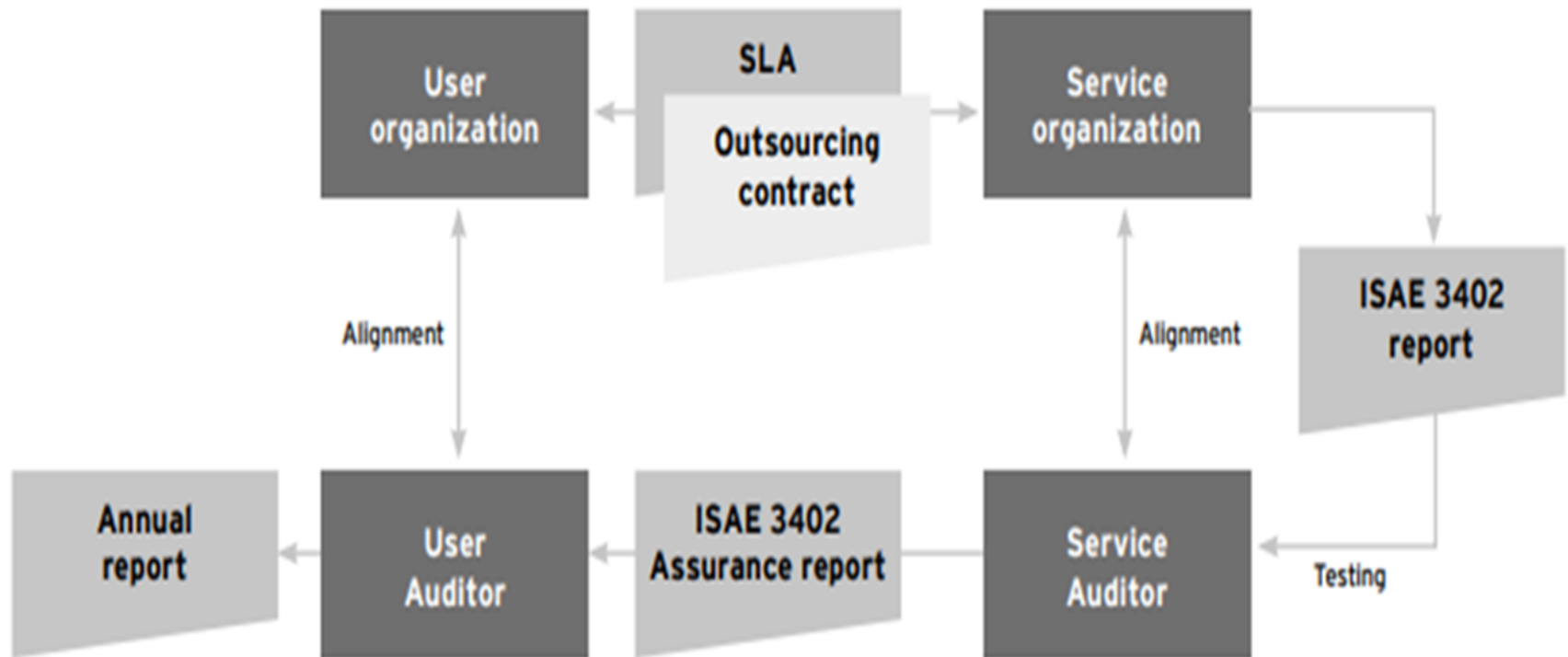
# ISAE 3402: Assurance Reports on Controls at a Service Organization



- This engagement involves an examination of a service produced by a service organization, of the systems operated on behalf of the user organization, which are relevant to the user's internal control processes. This service provided is relevant to user entities' internal control since it relates to financial reporting.
- The professional accountant provides a report to the user entities and their auditors, regarding the controls at a service organization that provides a service to user entities.
- the user entity outsources part of its business operation to a service organization.
- Service Level Agreement (SLA): The contract in which formal agreements regarding the outsourced services are recorded



# Collaboration between the organizations and the auditors



# ISAE 3000 vs ISAE 3402



- Outsourced services with no impact on financial information should be audited in accordance with ISAE 3000.
- Outsourced services with impact on financial information of the user organization should be audited in accordance with ISAE 3402. Hence this standard requires financial information be processed by the service organization.

# Responsibilities of the service organization under ISAE 3402



- To prepare and present a complete and accurate description of the internal control framework
- To specify the control objectives
- Identify the risks that threaten the achievement of the control objectives
- Design, implement and maintain controls to provide reasonable assurance that the control objectives will be achieved
- Provide a written assertion to accompany the description as to the completeness and accuracy of the information provided and state the criteria used as a basis for making the assertion

# The service organization auditor



- The auditor of the service organization determines whether all the aspects of the ISAE 3402 standard are adequately addressed by the system description.
- The service auditor also determines if mentioned controls exist, are adequately designed and operated effectively during a certain period.
- An opinion to the ISAE 3402 report is then issued by the service auditor.
- The auditor to the user organization (user auditor) relies on the service auditor's opinion, when auditing the user organization financial statements.

# Reporting



There exist two types of Service Auditor's Reports:

Type 1: This is a report on the description and design of controls at the service organization, at a specific point in time e.g. As at 31st Dec 2019. The service auditor expresses an opinion on:

- Whether the service organization's description of its controls presents fairly, in all material respects, the relevant aspects of the service organization's controls that had been placed in operation as at the specific date, and
- Whether the controls were suitably designed to achieve specified control objectives.

Type 2: A report on the description, design, and operating effectiveness of controls at a service organization. It also includes a detailed testing of the service organization's controls over a minimum of six month period.

- The service auditor expresses an opinion on the same items in a Type I report, and includes:
- Whether the controls that were tested were operating with sufficient effectiveness to provide reasonable assurance that the control objectives were achieved during the period specified.

# End of presentation



## Thank You!

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