

Choosing the Right Service

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Whenever you walk into an audit firm, one assumes that you are interested to purchase an audit service. But did you know that your auditor/ Reporting Accountant can also provide other types of services under a varied spectrum of assurance?

An important point for you to grasp is the level of assurance you want to derive from these services.

The International Auditing & Assurance Standards Board (IAASB) based in New York requires the concept of assurance to be understood before audit and review

engagements are to be undertaken. Assurance, according to the dictionary, is “a positive declaration intended to give confidence or a promise”. Based on the IAASB’s standards applicable to audit and review, an assurance engagement is “an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party (ie. the preparer) about the subject matter information, usually the financial statement, for a specific time frame. These assurance engagements are classified on two dimensions, either

a reasonable or a limited assurance engagement, but in practice, the spectrum of assurance can be wider.

Certification

A certification report or ‘attestation’ in the US, provides an assurance level of 100%. In a certification engagement, the entire population of transactions is examined, and any exceptions are tabulated. The report will state that the Reporting Accountant or auditor certifies the results of the examination to be accurate or has since tabulated the results in a true and correct manner (as opposed to true and fair) for



those transactions reported within a specific time frame under examination.

A certification is usually required by a competent authority or regulator, or during a forensic investigation where all transactions within the population must be verified to ensure their authenticity. The IAASB does not promulgate any reporting standard on certification because the specified level of work required for an absolute level of assurance is always agreed upon between the reporting entity, the auditor or Reporting Accountant, and the recipients of the final report, be they a regulator or third party such as

shareholders or an acquirer, who are independent of the management or preparer.

So, what are the benefits of a certification and when is this appropriate? Obviously since the scope of coverage is 100%, this allows for all exceptions to be tabulated in a report with certainty. The flip-side is the cost – it involves extensive examination and reporting of the whole population of transactions, so the effort and cost of providing such a service can be prohibitive.

For this reason, unless it is a request by a regulator or in the case

of a forensic investigation where certainty is required in fraud cases and for determining the scope of potential losses, most companies will steer clear of such a service.

In many jurisdictions, certification work is undertaken by the legal profession as it comes with many caveats – possibly with the assistance of a good accountant.

Audit

The most common service rendered by an auditor – an audit, is a statutory requirement for companies under the Malaysian Companies Act 2016. The auditor's report will

include an opinion whether the financial statements have been prepared in all material respects in accordance with the applicable financial reporting framework, e.g. the MFRS. The International Standards on Auditing (ISA) require the auditor to perform a variety of audit procedures to obtain audit evidence that is appropriate and sufficient to reach an opinion with a high, but not absolute, level of assurance, i.e. that the financial statements are true and fair (as opposed to a certification which is 'true and correct').

An important distinction between an audit and a certification is that in an audit, the auditor does not verify 100% of the transactions but is based on a random and/or statistical sampling that is supposedly representative of the population. The concept of materiality is thus applied in the audit work.

Review

A review involves your Reporting Accountant primarily making enquiries and performing analytical procedures to arrive at a conclusion whether the financial statements are prepared in accordance with the applicable financial reporting framework. It is typical that such a report will state that "Nothing has come to the attention of the Reporting Accountants ... "unless certain exceptions are noted in the course of the work being performed. The planned nature, timing and extent of procedures performed, differing from the usual audit procedures, depend on the nature and circumstances of the review engagement, and are undertaken to

obtain a limited assurance on whether the Reporting Accountant is aware of any matter that may cause the financial statements to be materially misstated. Hence, this type of assurance is usually known as a negative assurance report.

So, when is a review appropriate? According to the IFAC's recent publication, "Choosing the Right Service"¹, a review is appropriate when:

- The entity is exempted from statutory audit requirement but users such as shareholders or banks require some form of limited assurance;
- It is requested by a group auditor in respect of a subsidiary or business unit forming part of the consolidated group; and/ or
- The management of a business unit, requiring an additional control mechanism in the oversight of the overall financial reporting process, specifically requests for this service as an added assurance, albeit limited.

Compilation

Your Reporting Accountant will apply accounting and financial reporting expertise to assist you with the preparation and presentation of historical financial information, based on your request. A compilation engagement is not an assurance engagement; the Reporting Accountant does not obtain any assurance after his work, but external users such as lenders, insurers, including yourself, will often value the involvement of a professional accountant in compiling such financial information.

At the very least, the knowledge that the Reporting Accountant will not knowingly be associated with

any documents, reports or other information that contain a materially false or misleading statement is a form of pseudo-assurance. It is part of the accountant's compliance with the Malaysian Institute of Accountant's (MIA) expansive code on professional ethics. In addition, the Reporting Accountant is also required to report all matters that, in their professional judgement, are of sufficient importance to merit management's attention in the course of their work.

So, when is a compilation engagement appropriate? It is appropriate:

- When management may not have the expertise nor time to prepare a financial report and prefers to have an external professional accountant to do it; or
- Where users need to know that a professional accountant had some form of involvement in the preparation and presentation of the financial statements.

Agreed-Upon Procedures (AUP)

In this case, your Reporting Accountant performs procedures on financial or non-financial subject matters only upon agreement with yourself, the engagement party, or someone who specifically requested for the report such as a competent authority or a regulator. A report communicating the procedures performed and related findings will be issued. No assurance is obtained and neither is a conclusion nor opinion expressed; it is up to the readers to reach their own conclusion. This is a significant difference from a certification service where your Reporting Accountant renders an opinion or



conclusion based on the results of work performed.

So, when are agreed-upon procedures useful?

- When management wants to focus on specific areas of financial or non-financial subjects to satisfy the intended users' needs, for example, in comparing inventory balance to inventory records, matching accounts payable balances to third party confirmations, tracing

the use of grants, or recalculating the volume of greenhouse gas emissions for submission to the authorities; or

- When management seeks comfort that certain disclosures required by applicable reporting standards have been provided. Moving forward, this is especially relevant for the volume of non-financial subject matter information that needs to be reported such as those related to emerging environmental, social, or

governance reporting standards (ESG standards).

Again, the comfort that the Reporting Accountant will not knowingly be associated with any documents, reports or other information that contain a materially false or misleading statement, as part of the accountant's compliance with the MIA's professional code of ethics, is a draw factor.

In summary, here's a recap:

Engagement Type	Standards	Assurance	Work Effort	Report
Certification	Not Applicable**	Absolute (a "true and correct" opinion is given with exceptions tabulated, where appropriate)	Procedures are agreed-upon (on 100% of the transaction population) specified in the terms of the engagement. Limitation or caveat on the work performed is usually stated up-front.	Report on the agreed-upon procedures performed and the related findings with a conclusion/ opinion provided
Audit	International Standards on Auditing (ISAs)	Reasonable (a "true and fair" opinion is given with exception, where appropriate)	Risk assessment and audit procedures (on a sampling basis) that respond to the risk identified. Materiality is a recurring concept in audit	Opinion given (Positive assurance)
Review	International Standards on Review Engagements (ISRE) 2400 (Revised)	Limited ("Nothing has to come to our attention..")	Primarily enquiries and analytical review	Conclusion (Negative assurance)
Compilation	International Standards on Related Services (ISRS) 4410	None	Assisting management to prepare historical financial information	Report communicates the nature of the compilation engagement and the Reporting Accountant's role and responsibilities (no assurance is given)
Agreed-Up on Procedures	(Revised) ISRS 4400 (Revised)	None	Procedures as agreed upon in the terms of the engagement	Report on the agreed-upon procedures performed and the related findings (again, no assurance is given)

** While no specific standard exists (IAASB does not promulgate any certification standard), the Reporting Accountant can usually use the Agreed-Up on Procedures standard as a basis to frame the scope of engagement, except that in such a situation, a conclusion or opinion is expected to be rendered. In other instances, the requirement for certification will usually come with its own set of procedures or processes (se by a competent authority or regulator) and the Reporting Accountant is expected to comply with those stated requirements.