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Will a broader use of auditing standards increase trust?

Singapore Management University

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Getting non-financial professionals on board may be a double-edged sword

In order to build trust in their corporate actions and to respond to stakeholder and public expectations, an increasing number of organisations around the world are reporting performance on a broader range of non-financial information.

They are also increasingly seeking independent assurance of such reported information, but in this quest lies a dilemma.

Arguably, the most rigorous and recognised assurance standards attesting to the disclosure of non-financial information – such as greenhouse gas emissions – are those administered by the International Auditing and Assurance Standards Board (IAASB).

In a competitive market for assurance providers, the pool of professionals who are able to deliver assurance services includes practitioners from the professional accounting firms and also non-financial practitioners, who typically come from consulting or engineering firms, certification bodies and government agencies.

The IAASB has determined it is in the public interest to encourage these other (non-financial) assurance providers to use its “best practice assurance statements”, and the standard, which became effective in 2015, stipulated that practitioners disclose the ethics and quality control frameworks under which their engagements are undertaken.

These conditions were designed to allow a full assessment of the integrity of these engagements.

While this has clarified and been able to increase the application of the board’s International Standard on Assurance Engagements 3000 (ISAE 3000), it has also raised the crucial question: is the public interest best served by encouraging the application of best practice assurance standards by non-financial practitioners?

ASSURANCE QUALITY

The problem for transnational bodies such as the IAASB is that they have limited ability to enforce the use of their standards by non-financial practitioners and to guarantee the quality of the assurance that is conducted under their standards.

This issue is the subject of recent research by **Roger Simnett**, a professor of accounting at UNSW Business School.

Working with UNSW PhD student Irene Ge, and Shan Zhou, a lecturer at University of Sydney Business School, Simnett analysed almost 4000 assurance engagements spanning 41 countries to understand the impact of the revision to ISAE 3000.

This assurance standard officially encouraged its use for assurance engagements by non-financial practitioners while requiring all practitioners to disclose the underlying ethics and quality control frameworks in the assurance reports.

“This is a real dilemma for the IAASB,” says Simnett, who is also the present chair of the Australian Auditing and Assurance Standards Board.

“They believe it is in the public interest for assurance practitioners to use their standards, and in some cases this makes sense because some of these other practitioners are subject matter experts, but the quality of assurance relies on the underlying quality control and ethical frameworks which has guided it.

“It’s a problem you often see with international regulation and standards. You want them applied, but you want them applied properly, otherwise there is the potential to undermine the process.”

THE FIGURES

The researchers focused on responses to the Carbon Disclosure Project’s (CDP) survey, and analysed responses from companies both before and after the IAASB’s 2015 revision of ISAE 3000.

The analysis showed there was no increase in the use by financial professionals of ISAE 3000 as the assurance standard for CDP reports (remaining static at 93%), while there was a 40% increase in the use of ISAE 3000 by non-financial practitioners (from 11% to 15%).

In terms of compliance to the disclosure of ethical frameworks by financial professionals, this increased from 82% of all engagements prior to the 2015 revision to 90%, while that of non-financial practitioners increased from 27% to 36% over the same periods.

For quality control frameworks, the trend was similar. Among financial professionals, it increased from 40% to 75%, and among non-financial practitioners from 5% to 18%.

This analysis shows that financial professionals are well ahead of other providers in their disclosures on both the ethical and quality control frameworks they have used to deliver assurance, while indicating that further improvement is still needed for these required disclosures from both the financial and non-financial providers.

'INFORM THEIR WORK'

The increase in non-financial providers using ISAE 3000 shows that the IAASB standards are having broader traction, but could support the view that the application of the standards are being undermined as they become more popular.

Anecdotally, Simnett has also observed other worrying trends that also play into that view, and highlight the difficulties the IAASB faces in any attempt to monitor and enforce compliance on provers who are not finance professionals.

“While the accounting profession has rules and regulations over the behaviour of registered accountants, it currently has no way of stopping free-riding from other practitioners who can simply reference their standards, even if they are not going to fully apply them,” he says.

“We also see people referencing the standard in creative ways so that requirements for applying the standards are not being breached, but which may increase the credibility of the underlying report, such as saying that while their assurance has not been done in accordance with the standards, the standards have been used to ‘inform their work’.

“So people are getting rather clever in this area, but it really does have the potential to undermine confidence in the process and lead to questions about the credibility of the reported information and the application of the standards.”

Simnett, Zhou and Ge’s research opens up more questions and there are plans to follow up with a closer look at the quality of the assurance engagements.

The present research has delivered quantitative data on the difference between assurance practitioners from the accounting profession and other assurance providers in terms of reporting their ethical and quality frameworks, but has not looked to see if there is any difference in the quality either of the assurance, or the disclosures.

It has, however, pointed out the dilemma facing international standard setting bodies which can develop best practice standards, but have no enforcement mechanisms, as demonstrated by the popularity of the IAASB standards as they have come to be more widely applied.