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Guidance for accountants

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Introduction

1. Professional accountants (accountants) are often asked by their clients to sign reports that have been requested by parties with whom the client has a relationship ("third parties"). Frequently the accountant is presented with a standard report from the third party in a form that is not suitable for the accountant to sign.

2. Accountants are not bound by arrangements between clients and third parties to which they were not a party and have no obligation to sign such reports. It is essential for accountants to carefully consider whether the report being requested will be fit for purpose, economically viable to all parties and whether the provision of the report is acceptable from a risk management perspective. A fundamental part of determining this is establishing who is requesting the report and why they are requesting it at an early stage in their relationship with clients. This information is essential for the accountant to determine if there is a suitable form of engagement that will meet the user's requirements that can be performed under an appropriate international standard and also to consider whether the engagement is economically viable for all parties concerned.

3. It is important to negotiate appropriate engagement terms for providing such reports sufficiently far in advance of the reports becoming due. This helps to avoid any disagreements with the client or the third party regarding the form of the report that is needed and should ensure sufficient time for the work to be completed and the report to be given.

4. The Institute engages with third parties such as the Property Services Regulatory Authority and the Law Society of Ireland to agree on appropriate forms of engagements and reports where the request is likely to have wide-scale application. Where appropriate, specific guidance is issued relating to such engagements and template reports are developed – members are advised to check the current list of Technical Releases (TR) and Technical Alerts (TA) on the website to confirm that there is no specific guidance issued that covers their current client request. <https://www.charteredaccountants.ie/knowledge-centre/technical-hub/home>

5. This TR does not cover:

- Corporate finance engagements.
- Reports required under company legislation,
- Reports to regulatory bodies such as the Central Bank of Ireland and the Law Society of Ireland. For an up to date list of such agreements and reports please check the Institute website <https://www.charteredaccountants.ie/knowledge-centre/technical-hub/audit-and-assurance/other-engagements>

6. The guidance in this TR is set out under the following headings that describe the process accountants may follow in response to requests for reports from third parties:

- Determine who will rely on the accountants' work and for what purpose
- Consider the form of report requested by the third party.
- Agree on the type of engagement and the applicable framework as well as the form of report to be given.
- Agree appropriate terms of engagement.

Determine who will rely on the accountants' work and for what purpose

7. When accountants know that a report that they have been requested to prepare is for use by a third party and that the third party will rely on the report, the accountants may owe the third party a duty to take reasonable care in preparing and providing the report. If the accountant owes the third party such a duty, they could be liable to that third party if they were negligent, and the third party suffered a loss in placing reliance on the report.

8. It is vital, therefore, for accountants to understand who the third party is, why the report is required and the extent of reliance and consequent implications for the third party of placing such reliance on the report. This understanding will enable the accountant to determine whether it is possible to design a suitable engagement under existing standards (for example International Standards on Auditing (ISAs)¹, International Standard on Assurance Engagements (ISAEs) or International Standard on Related Services ISRSs) that will meet the needs of the third party requesting the report. Having determined that it is possible to perform a suitable engagement and issue an appropriate report, the accountant will need to determine whether the risks involved in undertaking the engagement are at an acceptable level for their business.

9. In general, a tri-partite engagement letter should be signed by the client, the third party requesting the report and the accountant that sets out clearly the type of engagement, the scope of the engagement, the nature of the work being undertaken, the purpose of the engagement and any limitations of the engagement.

Accountants are advised to consider obtaining legal advice before allowing reports to be provided to a third party who has not signed the engagement letter as such engagements may arise in practice.

Consider the form of report requested by the third party

10. As stated in paragraph 2, accountants maintain a dialogue with their clients to enable requests for reports to be highlighted at the earliest possible stage, so that difficulties may be addressed. Accountants should not sign any reports agreed between a client and the third party unless the report is appropriate in both the nature of the statements made and the framework used. The requested form of report (which can - but might not - take the form of a 'standard' report on a pre-printed form), will often be inappropriate because it will not comply with the requirements of the relevant standard under which the engagement could be undertaken². In such circumstances, accountants do not accept third parties' arguments that such reports cannot be changed and should offer an alternative report using the template wording outlined in the relevant standard under which the engagement is undertaken.

11. Common requests that have arisen in the past that would not be acceptable in any circumstances or under any standard are set out in Appendix 1

12. Accountants only sign reports if they have performed sufficient work under an appropriate standard and obtained sufficient evidence as set out in the relevant standard to support the statements they are asked to make in the report.

13. Sometimes third parties ask accountants to sign statements concerning such matters as the future solvency or performance of the client, which cannot be supported by any amount of work performed by the accountants. By signing such reports, misunderstandings may arise that accountants may become the equivalent to insurers or guarantors of the clients' obligations to third parties. Accountants should not accept this responsibility and should refuse to sign such reports. However, they may propose an alternative engagement with an appropriate report under an appropriate standard.

14. If third parties require a guarantee regarding the future solvency of a client, it is usually most appropriate for them to introduce their own procedures to monitor clients' financial solvency, to require the clients to obtain bank guarantees or to take out their own separate insurance to

cover their potential exposure - an accountant's report can never be a substitute for any of these options and it is not part of the accountants' function to act as an insurer.

15. Accountants should not agree to forms of report, used by third parties, which place reliance on the statutory audit of the client – See examples in Appendix 1. Accountants avoid circumstances that may result in a duty of care for the statutory audit report becoming established with a third party. They exercise caution if asked by the client to send audited financial statements directly to a third party. For example, they avoid sending the audited financial statements directly to the third party unless this is accompanied by an effective disclaimer and they respond in writing to attempts by a third party to establish a duty of care in respect of the statutory audit report by disclaiming all liability to the third party.

Agree on the type of engagement and the form of report to be given

16. Accountants make clear to clients and third parties that engagements to provide reports to a third party are separate engagements from the statutory audit engagement. The work performed in order to provide the report for the third party will be separate work and subject to a separate fee from the work performed on the statutory audit, and liability will be limited as appropriate (see [paragraph 29](#)). Accountants agree with the client and the third party the type of engagement and the form of report that is appropriate taking into account the purpose of the report, the standard(s) under which the engagement will be performed and the cost of the work. The timescale for providing the report is agreed at this stage. This timescale should provide sufficient time for the work to be completed and the report to be given - accountants do not agree to timescales for providing reports where it is not possible to plan and complete all the necessary work within the timescale requested.

17. In determining the type of framework to be used for the engagement, accountants will generally consider the engagement that may be appropriate in the circumstances under standards issued by the IAASB, in selecting the appropriate standard, accountants should consider the nature of the request made by the third party i.e. is a form of assurance required or not. The IAASB is an international standard setter for auditing, quality control, review and other assurance and related services. The IAASB standards consist of:

- International Standards on Auditing (ISAs)
- International Standards on Assurance Engagements (ISAEs)
- International Standards on Related Services (ISRSs)

Details of these standards are set out in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements published on the IFAC website: (www.ifac.org)³

18. The following standards are the most likely standards that will be considered in determining what form an engagement should take:

- International Standards on Related Services 4400 (Revised) (ISRS 4400) Agreed-Upon Procedures Engagements. (April 2020)⁴
- International Standards on Assurance Engagements 3000 (ISAE 3000 (Revised)), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (Effective date, December 2015)⁵

19. Appendix 3 outlines the type of engagements that may be requested and the appropriate standards and guidance for accountants. This appendix provides a “roadmap” to relevant professional standards and supporting materials that are available to accountants when delivering assurance, agreed-upon procedures or advisory engagements. The expression of a ‘conclusion’ separates assurance engagements from engagements to compile financial statements or to perform agreed-upon procedures. With compilation engagements, accountants are involved in the compilation of financial information, but express no conclusion upon that information. In an assurance engagement, accountants ‘express a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation or measurement of a subject matter against criteria’.

When accountants perform agreed-upon procedures, they report on findings of fact rather than giving an overall conclusion derived from their work.

20. Firms that undertake engagements under the IAASB standards must ensure that they comply with International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* or International Standard on Quality Management 1 (ISQM1) which replaces ISQC1 from December 2022 or standards that are at least as demanding.

<https://www.ifac.org/system/files/publications/files/IAASB-Quality-Management-ISQM-1-Quality-Management-for-Firms.pdf>

These standards are available from the IFAC website: <https://www.iaasb.org/standards-pronouncements>

Agreed-upon Procedures

21. In most situations where accountants are asked to provide a report to a third party, an agreed-upon procedures engagement under ISRS 4400 is the most common type used. An agreed-upon procedures engagement is not an audit, review, or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the accountant expressing an opinion or an assurance conclusion in any form.

22. In an agreed-upon procedures engagement, the accountant performs the procedures that have been agreed upon by the accountant and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The accountant communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report.

23. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the accountant and draw their own conclusions from the work performed by the accountant.

24. ISRS 4400 (Revised) does not require the accountant to include a statement that the report is restricted to those parties that have agreed the procedures to be performed. Such a restriction is now based on the discretion of the accountant. The application material in the standard guides the accountant in deciding whether to restrict the use or distribution of the report.

The IAASB has published a short introduction to this standard on their website: <https://www.ifac.org/system/files/publications/files/ISRS-4400-Revised-Fact-Sheet-final.pdf>

The full standard can be downloaded from the IAASB website: <https://www.ifac.org/system/files/publications/files/ISRS-4400-Revised-Fact-Sheet-final.pdf>

Assurance Engagements

25. An assurance engagement performed under ISAE 3000 is an engagement where the accountant expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.

26. Assurance reports under international standards such as ISAE 3000 require significant work levels in the scoping and performing the engagement. These are set out in paragraph 24 of the standard and in the associated application guidance.

27. Under ISAE 3000, there are two forms of assurance engagement.

i. In a **reasonable assurance engagement**, the accountant reduces engagement risk (the risk that an inappropriate conclusion is expressed when the information on the subject matter is materially misstated) to an acceptably low level and expresses a conclusion in a form that conveys this opinion such as “the entity has complied in all material respects with ...”.

ii. A **limited assurance engagement** is one where the accountant reduces engagement risk to a level that is acceptable in the circumstances, but the risk is greater than for a reasonable assurance engagement. This forms the basis for expressing a conclusion in a form that conveys whether a matter has come to the accountant's attention to cause them to believe that the subject matter information is materially misstated. For example, "In our opinion based on the procedures performed and the evidence obtained nothing has come to our attention that causes us to believe that the entity has not complied in all material respects with XYZ law".

Further examples of appropriate wording and modified reports can be found in the application notes to the standard. The standard can be downloaded from the IAASB website:

<https://www.ifac.org/system/files/publications/files/ISAE%203000%20Revised%20-%20for%20IAASB.pdf>

28. A common issue that arises in practice is that the third party requests a report that provides assurance over a subject matter but does not understand the extent of the work that is required to design and execute an assurance engagement and has an expectation that the client will pay for the necessary work. If the client is not prepared to pay for the work needed to provide the level of assurance sought then the accountant should decline to act.

Other risk management considerations

29. Accountants may wish to include a general disclaimer of liability, an example which may be useful is included in Appendix 2 of this document. Accountants may also wish to consider whether a liability cap is appropriate in the circumstances of the engagement. An example is set out in Appendix 2 of this document.

Terms of Engagements

30. As with all assignments an accountant should agree the terms of engagement as outlined in the relevant standard.

31. An accountant performing an engagement is required to comply with any ethical and independence requirements as set out in the relevant standards. Relevant ethical requirements ordinarily comprise the IESBA code together with the Code of Ethics issued by Chartered Accountants Ireland⁶.

Appendix 1 - Some examples of types of engagement wording or of opinions that are unacceptable to accountants providing reports

(This not intended to be an exhaustive list).

1. As set out in paragraph A34 of ISRS 4400. Terms that may be unclear, misleading, are subject to varying interpretations depending on the context in which they are used, may include for example:

- Terms that are associated with assurance under the IAASB standards such as "presents fairly" or "true and fair", "audit", "review", "assurance", "opinion" or "conclusion".
- Terms that imply the expression of an assurance opinion or conclusion such as "we certify", "we verify", "we have ascertained" or "we have ensured" with regards to findings.
- Unclear or vague phrases such as "we have obtained all the explanations and performed such procedures as we considered necessary".
- Terms that are subject to varying interpretations such as "material" or "significant".
- Imprecise descriptions of procedures such as "discuss", "evaluate", "test", "analyze", "review" or "examine" without specifying the nature and extent and if applicable the timing of the procedure to be performed. For example, using the word "discuss" may be imprecise without specifying with whom the discussion is held or the specific questions asked.

•Terms that suggest the findings do not reflect factual results such as “in our view”, “from our perspective” or “we take the position that”.

2. Wording that might suggest that the third party is able to rely on the statutory audit of the client.

Accountants avoid any possibility of a link becoming established between the special report and the statutory audit report. For example, they avoid phrases such as ‘we audited the statutory accounts and we...’ or ‘during our audit we...’.

3. Opinions which accountants do not have the necessary competence to provide.

Accountants avoid opinions that are not within their professional competence, for example, an opinion of an actuarial nature or a property valuation, where there has been no input from a relevant expert. Another example of this would be the appropriateness of the insurance cover.

4. Opinions on matters beyond the accountants' knowledge and experience

Accountants avoid giving any opinion about how ‘appropriate’ operational information or records being held or maintained by the client are, where the information or records relate to matters concerning the specific operational circumstances of the client which are beyond the scope of the accountants' professional knowledge and experience.

5. Reports on internal controls.

Where a client requests a report on internal controls the engagement should only be undertaken using the appropriate standard. International Standard on Assurance Engagements 3402 (ISAE 3402) deals with assurance engagements undertaken by an accountant to provide a report for use by user entities and their auditors on the controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting.

6. Reports without addressees.

Accountants do not provide reports where it is unclear to whom the report is being provided.

7. Reports on financial information which is not explicitly approved by the client.

The client has responsibility for the financial information being provided and it is, therefore, not appropriate for the accountants to report on financial information unless it is clear that it has first been approved by the client.

8. Qualifications in the covering letter only

Accountants do not provide qualifications in their covering letter. Such qualifications are included in the main body of the report so that they cannot be detached.

9. Opinions which would impair the auditors' independence.

Accountants do not provide opinions that would impair their independence as auditors. For example, where the client is an SEC registrant, certain forms of valuation opinion are not permitted from auditors.

Appendix 2 - Example of a Liability Cap for the accountants' reporting engagement

Example of a disclaimer for the accountants' reporting engagement

Our Report is prepared solely for the confidential use of [insert name of client] and solely for the purpose of [describe the purpose]. It may not be relied upon by [insert name of client] for any other purpose whatsoever. Our Report must not be recited or referred to in whole or in part in any other document. Our Report must not be made available, copied, or recited to any other party [without our express written permission]. [Insert name of professional accountants] neither owes nor accepts any duty to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by their reliance on our Report.

Example of a Liability Cap for the accountants' reporting engagement

“The aggregate liability, whether to [insert name of client] or [insert name of third party] or any other party, of whatever nature, whether in contract, tort or otherwise, of [insert name of accountants] for any losses whatsoever and howsoever caused arising from or in any way connected with this engagement [and this transaction] shall not exceed [insert amount] (including interest).”

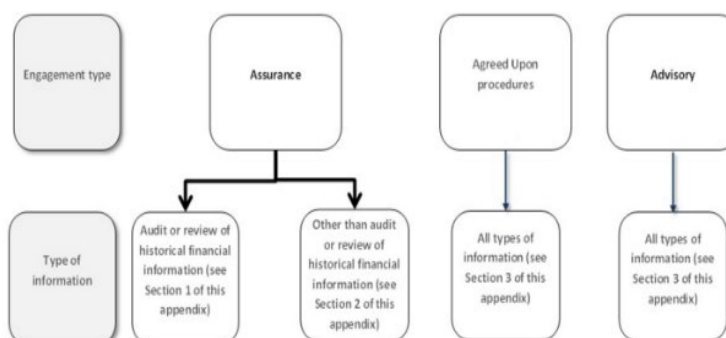
This is an example of a liability cap only, which will be one of a number of provisions relating to the accountants' liability and any limitations thereon. For example, the liability provisions will

need to make it clear that the professional accountants are not seeking to exclude those liabilities (such as liability for their own fraud) which cannot be excluded by law.

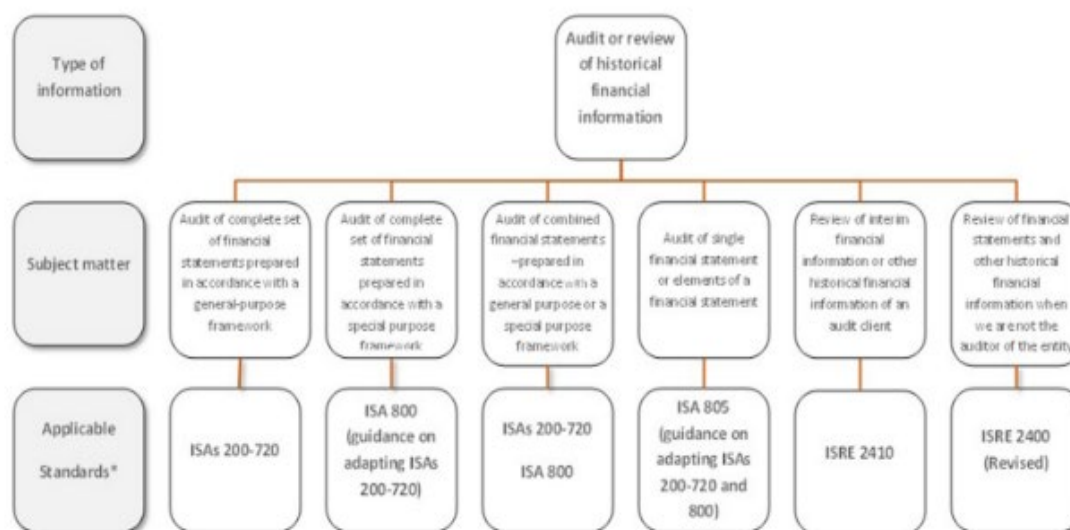
Appendix 3 Roadmap of Engagement types and standards and supporting materials

This appendix provides a “roadmap” to relevant professional standards and supporting materials that are available to professionals when delivering assurance, agreed-upon procedures, or advisory engagements. Engagements may be classified as follows:

- Assurance, audits, or reviews of historical financial information, as set out in Section 1; or
- Other assurance engagements, i.e., assurance engagements other than audit or reviews of historical financial information, as set out in Section 2.
- All types of information in Section 3.



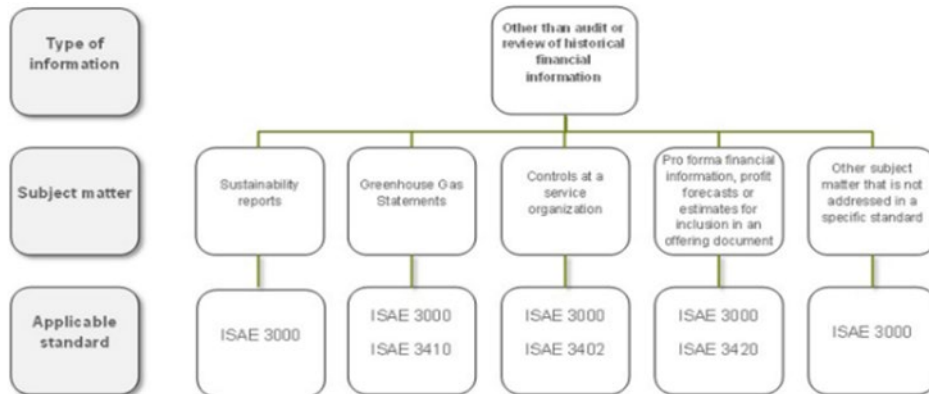
Section 1 Audits or reviews of historical financial information



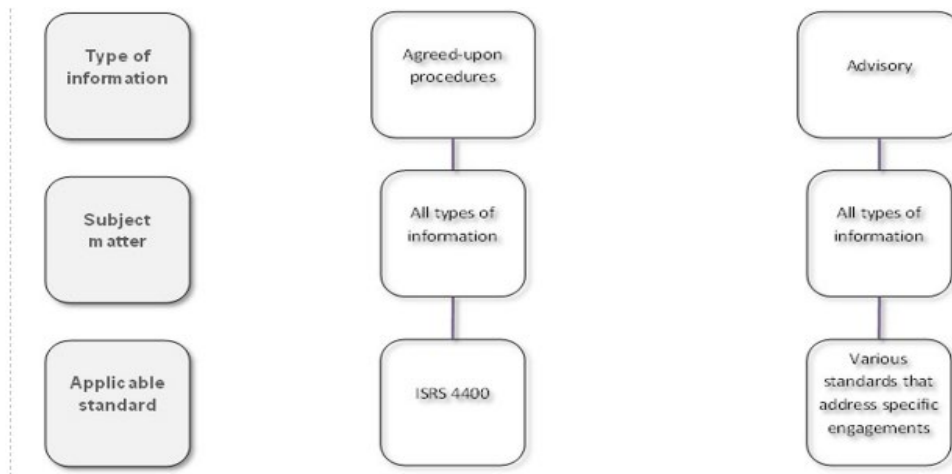
* IAASB Standards can be downloaded from <https://www.iaasb.org/standards-pronouncements>

Section 2 Other assurance engagements

Accountants only accept an assurance engagement where certain preconditions are present. These are outlined in the standards² listed below and include matters such as the roles and responsibilities of the appropriate parties are suitable in the circumstances, the underlying subject matter is appropriate, the accountant expects to be able to obtain the evidence needed to support the conclusion and a written report is to be issued.



Section 3 All types of information



¹ International Standards on Auditing (Ireland) are issued by the Irish Auditing and Accounting Standards Authority (IAASA) and can be accessed on www.iaasa.ie
International Standard on Assurance Engagements (ISAE) and International Standard on Related Services (ISRS) are issued by The International Auditing and Assurance Standards Board <https://www.iaasb.org/>

² See paragraph 17 below for examples of such standards.

³ The Irish Auditing & Accounting Supervisory Authority adopts International standards on Auditing for use in Ireland under licence from the Financial Reporting Council in the United Kingdom. In the UK International standards on Auditing are adapted by the Financial Reporting Council

4 [<https://www.iaasb.org/publications/international-standard-related-services-isrs-4400-revised>]

5 <https://www.iaasb.org/standards-pronouncements>

6 The Code of Ethics for Members. <https://www.charteredaccountants.ie/Ethics/The-Code-of-Ethics>

7 IAASB Standards can be downloaded from <https://www.iaasb.org/standards-pronouncements>