

*SPECIAL REPORTS REQUIRED FOR ACCOUNTANTS*

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*The following statement is adapted with the permission of the Institute of Chartered Accountants in England and Wales, from Statement 3. 915 (S13) issued to their members. The statement does not deal with (a) accountants' reports required by the Industrial Development Authority in the Republic of Ireland and (b) accountants' reports required by the Department of Commerce and the local Development Unit in Northern Ireland. Separate guidance will be issued on these matters at a later date.*

## **Introduction**

- 1 Government departments, professional and trade associations and other bodies frequently require a report from an accountant in support of a statement of figures or other information prepared by a client company or firm for purposes which include the following:
  - (a) claims for a subsidy, grant or rebate or for special trading terms or facilities;
  - (b) the determination of basis figures for the purpose of quotas, levies or subscriptions;
  - (c) as a basis for statistics;
  - (d) confirming to a professional or trade association that its rules as to 'solvency' or the existence of an excess of assets over liabilities as at a particular date have been complied with.
- 2 Members of the Institute can report only on matters which are within, and in terms appropriate to, their professional function as accountants and there should be a clear understanding between the body which calls for the statement, the client and the accountant as to their respective positions.

## **Practical Difficulties**

- 3 Many statements on which members are asked to report are based on an imperfect understanding of the function which the accountant can properly and economically perform. In consequence, some statements are unsuitable in one or more of the following respects:
  - (a) their scope extends to matters outside the professional function of an accountant (paragraph 4);
  - (b) the title of the statement may be inadequate or misleading as a description of its objective, or the headings used may be ambiguous (paragraph 5);
  - (c) the accountant's report is drawn in a form which requires him to 'certify' the correctness of the information given - that is, to make a factual assertion - in circumstances in which it is not feasible for him to give more than his normal professional service of expressing an independent opinion (paragraph 6);
  - (d) the amount of work required of the accountant, and often of his client, may involve disproportionate expense, although the accountant may be able to effect savings by suggesting either modification of the reporting requirements or change in the client's records.

### **Scope**

- 4 It is not within the scope of an accountant to report on such matters as:
- (a) the intentions of his client, for example as to the purpose for which articles or commodities were acquired or the manner in which they are to be used or dealt with;
  - (b) the technical constitution or quality of a product;
  - (c) the anticipated sales or production of any particular product.

He can however properly report whether a statement (in suitable form) showing, as regards (a), the purchases made and the manner in which they have been used, or as regards (b), the ingredients which are stated to have been used in making the product, is in accordance with the accounting and other records he has examined. If he so reports he should of course have carried out appropriate tests and inquiries so as to satisfy himself on the reliability of those records.

### **Certainty of Interpretation**

- 5 Neither the title to the form nor any of the descriptive captions used in it should be capable of misunderstanding. For example, the term 'sales' used alone may imply either amounts delivered and invoiced or the value of contracts for sales entered into for future delivery. Moreover, some organisations call for the completion by accountants of forms described as 'certificates of solvency' in which the accountant is called upon, inter alia, to confirm the 'solvency' of a member firm or individual. Apart from the difficulties in the case of partnerships and individuals of ensuring that all relevant liabilities are taken into account, the word 'solvency' may itself be ambiguous; it may be used in the sense of an excess of assets over liabilities or as implying an ability to meet current liabilities as they fall due. It is therefore important that, where ambiguities of this kind exist, the intentions of the body requiring the form should be ascertained at an early stage and any necessary amendments made to the statement so as to remove any uncertainty as to the information provided. In appropriate cases it may also be necessary for any prescribed form of accountants' report to be amended or amplified in order to make clear the nature of the information provided and the extent of the responsibility the accountant has assumed.

### **Form**

- 6 The word 'certificate' is not an appropriate title to the report of the accountant nor should the word 'certify' appear in its text, as both imply a degree of factual certainty which no examination of records can normally provide. The words can therefore only be used in relation to matters of which the accountant has or can obtain first-hand knowledge. He can certify that a given statement is in accordance with particular records or documents because this can be verified at first hand, but he can rarely certify that the records themselves are correct for he cannot normally be sure that he has had access at first hand to all the facts behind them. Moreover the records themselves may reflect apportionments and allocations which are matters of judgment or interpretation rather than of fact. The form of words to which the accountant attaches his signature should be described as a report and it should be made clear that he does no more than express his professional opinion.

## **Conclusions**

- 7 The Council of the Institute therefore recommends that the following principles should normally be applied:
- (a) a statement is not suitable for reporting on by an accountant unless:
    - (i) its subject-matter is wholly within the province of the accountant and is unambiguous (paragraphs 4 and 5);
    - (ii) the wording of the report which the accountant is required to complete makes clear the extent of the responsibility which he assumes; in particular he should not 'certify' the correctness of matters on which he cannot do more than express his professional opinion (paragraph 6);
  - (b) the accountant should take reasonable steps to ensure that clients in respect of whom statements are required are not involved in disproportionate or unnecessary expense;
  - (c) accountants who are asked to report on statements which are unsuitable (see (a) above) should, with the client's consent, take up the matter with the body which requires the report. This will be necessary where there is need for the removal of ambiguity in the requirements or for an interpretation of technical trade expressions, or where there is need for significant modification of the scope or wording of the statement either because of its inherent unsuitability or to save disproportionate expense;
  - (d) the accountant should be prepared to make any necessary amendments in the wording of the report so as to conform to the principles suggested in this statement while still satisfying the purpose for which the report is required. Failure to agree appropriate amendments with the body concerned should not deter the accountant from making them;
  - (e) the accountant's responsibility is normally to report on the claim or statement made by his client. In principle, therefore, the information on which the accountant is to report should be set out in a declaration by the client, on which the accountant may then report in suitable terms.
- Application of these principles is illustrated in the Appendix to this Statement, which deals in further detail with certain reports commonly required by insurance companies.

## **Appendix - Reports Required By Insurance Companies**

One of the more common forms of special report is that required by insurance companies or brokers in connection with clients' loss of profit policies. Frequently described as a 'certificate', such a report may cover gross profit, total wages, turnover, stocks, purchases, etc. Although these figures may derive from records that have been audited, the accountant has not necessarily carried out sufficient audit work to form an opinion on the accuracy of individual constituents of the profit and loss account; in any case his audit tests would not enable him to 'certify' the accuracy of any figures. Furthermore, terms such as 'gross profit', 'turnover' or 'wages', do not have a single precise meaning, and should not be used without a fuller description.

If asked to complete a statement of this nature, the following course of action is recommended:

- (a) accountants should avoid any wording which implies that the statement is a certificate rather than a report;

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- (b) where the insurer's requested form of report is considered inappropriate a report on the statement should be made in a covering letter. For example:  
"We have examined the attached statement which we have initialled for the purposes of identification only.  
We confirm that the figures are in agreement with the books and records of our client and formed constituent parts of our client's accounts for the year ended....., upon which we reported as auditors. However, our audit tests are directed towards the accounts as a whole and not to confirming individual items of income and expense other than those where separate disclosure is required by statute";
- (c) the client should be asked to produce a statement containing the figures required, or to agree formally the statement, if prepared by the accountant;
- (d) any ambiguities of narrative in the statement should be clarified by amending the wording, possibly by making specific reference to the interpretation clauses of the policy;
- (e) the accountant should determine to what extent he can report on the statement and carry out additional testing as necessary; however, it may be possible to agree with the insurers a modification of their requirements that would avoid a substantial amount of additional work;
- (f) copies of the statement and report, or covering letter, submitted to the insurer, should be sent also to the client for his information. This is clearly most important when, for the first time, a report is substituted for a 'certificate' or other amendment made.