

PROBLEMS OF USING THE CATEGORY “HISTORICAL FINANCIAL INFORMATION” FOR DETERMINING THE TYPE OF ASSURANCE ENGAGEMENT

For further development of the theory and practice of performing assurance engagements it is important to clearly distinguish the audit and review of historical financial information from other assurance engagements. The main criterion for their selection is the subject of the engagement "historical financial information" and, accordingly, the possible forms of its structured representation. To do this it is necessary to specify the content of the term "historical financial information" in the context of its application in the International Standards.

The term “historical financial information” was firstly suggested only in the International Standards of 2010 and it has not been changed in further editions. Such main characteristics of using term “historical financial information” in Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services since 2010 (Pronouncements. 2010, 2012, 2013, 2014, 2015, 2016-2017) can be distinguished:

1. The term “historical financial information” was introduced into the Glossary of Terms which states that “Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past”.

2. The term “historical financial information” is used in the Foreword to determine the scope of the application of International Standards on Auditing and International Standards for Engagements for Review.

3. It was first mentioned that International Standards of Auditing that they are written in the context of an audit of financial statements by an independent auditor and they are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.

4. The term “financial statements” is interpreted as: «A structured representation of the historical financial information, which ordinarily includes accompanying notes, derived from accounting records and intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term can refer to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes».

5. The term “other historical financial information” is found in International Standards only when indicating the possibility of adapting the International Standards on Auditing (ISA 200, ISA 260, ISA 805).

6. International Standards on Auditing and International Standards of Engagements for Review continue to use the term “financial statements, although the blocks themselves are called “Audits of Historical Financial Information” and “Reviews of Historical Financial Information”.

7. The term “historical financial information” is used broadly in the reviewed standards.

At the same time, International Standards do not indicate that financial statements are just one form of structured representation of historical financial information. The term “other historical financial information” is found in International Standards only when indicating that the ISA is set out in the context of the audit of the financial statements and should be adapted, as appropriate, when using other historical financial information during the audit. This remark is in the Foreword to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (Article 11), ISA 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing” (Article 2), ISA 260 “Communication with those Charged with Governance” (Article 2), ISA 805 “Special Consideration – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” (Article 1). Only in the Application and other Explanatory Material of ISA 805 “other historical financial information” is associated with Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.

In Appendix 1 examples of such other historical financial information (Specific Elements, Accounts or Items of a Financial Statement) are listed: accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for “incurred but not reported” claims in an insurance portfolio, including related notes; a schedule of externally managed assets and income of a private pension plan, including related notes; a schedule of net tangible assets, including related notes; a schedule of disbursements in relation to a lease property, including explanatory notes; a schedule of profit participation or employee bonuses, including explanatory notes.

Therefore, the term “historical financial information” has a broader meaning than the term “financial statements” and contains other information but only that can be obtained from the accounting information system. In fact, taking into account the content of the above-mentioned definitions we can conclude that historical financial information can be expressed in various structured forms, not only in the form of financial statements, as this is not the case in the definition. For example, tax reporting is also information expressed in financial indicators that is obtained using company accounting system.

This issue requires a clearer solution. Since in countries where value and relevance of other types of reporting, in particular tax, statistical and managerial (this applies to Ukraine) are extremely high, it is difficult to determine which type of engagements (audit or other assurance engagements) should be used.