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The Different Types of Assurance Services and Levels of Assurance Provided

Mahreen Hasan¹, Steven Maijor², Theodore J. Mock³, Peter Roebuck¹, Roger Simnett¹ and Ann Vanstraelen⁴

¹University of New South Wales

²Universiteit Maastricht and the Netherlands Authority for the Financial Markets

³University of Southern California

⁴University of Antwerp

In 2001 the International Auditing Practices Committee (IAPC, now the International Auditing and Assurance Standards Board (IAASB)) commissioned research on the determination and communication of moderate assurance. This research was published in IFAC research monograph No. 1 (2002). Part of this research involved surveying the types of assurance services undertaken by 56 assurance firms from 11 different countries, the levels of assurance at which these assurance services were generally provided, and for those services provided as moderate assurance services, the reasons why. This paper re-analyses this data and extends the IFAC research report (2002) by examining the differences between the types of assurance services (other than historical financial statement assurance) and levels at which these assurance services are provided by the former Big 5 audit firms compared with the non-Big 5 audit firms. Information was also collected on 166 moderate assurance engagements provided by these participating assurance firms. The determinants of the level of assurance for these assurance service engagements were identified and differences between the Big 5 and the non-Big 5 audit firms are reported.

Key words: Assurance levels, ISAE 100 (ISAE 3000).

SUMMARY

This research provides empirical evidence as to the types of assurance services and the levels at which this assurance is provided by audit firms providing assurance on subject matter other than historical

financial statements. It compares the types and levels of assurance services provided by the Big 5 firms in 11 different countries with those provided by non-Big 5 audit firms in those countries. The investigation was conducted by survey questionnaires administered to 110 audit firms (the Big 5 audit firms plus five non-Big 5 audit firms, from each of 11 countries). Responses were received from 56 different audit firms, 31 Big 5

Correspondence to: Roger Simnett, School of Accounting, The University of New South Wales, Sydney 2052, Australia. Email: r.simnett@unsw.edu.au

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firms and 25 non-Big 5 audit firms. The level of confidence provided by a moderate level of assurance engagement, and whether this differs between Big 5 and non-Big 5 audit firms, was also examined.

At the individual assurance engagement level, the determinants of the level of assurance provided are also examined. This is achieved by asking the respondent audit firms to provide up to five assurance reports issued for assurance engagements that were provided at a level of assurance other than high and then answering a series of questions regarding that engagement. These questions were, to what extent was the level of assurance provided in the example report affected by the following factors: subject matter, criteria, work effort, quantity of evidence and quality of evidence. The firms were then asked whether any other factors determined the level of assurance provided. This stage of the analysis is undertaken at the engagement level on the basis that the determinants of the level of assurance may change for the various assurance services. Differences were then examined between the Big 5 firms' responses and non-Big 5 audit firms' responses with regard to the determinants of the level of assurance provided for various engagements.

Assurance services are reported in this paper in accordance with the categorization contained in ISAE 100; financial data, non-financial information, systems and processes, and behaviour. The most frequently provided assurance service involving financial data is on prospective financial data, followed by due diligence and assurance on individual components. Prospective financial information and due diligence are most commonly provided at a moderate level of assurance, while assurance on individual components is commonly provided at either a high or moderate level of assurance. Assurance on environmental performance are the most common types of non-financial assurance services provided and internal controls are the most common types of systems and processes assurance services provided. Both of these are most commonly provided at a moderate assurance level. Compliance audits are the most common behaviour assurance service provided, and this is commonly provided at either a moderate or high assurance level. The results further show that, on average, a moderate level of assurance engagement is considered to provide on average a 60% confidence level, with this

percentage being slightly, but not significantly, lower for Big 5 audit firms (57%) compared with non-Big 5 audit firms (63%).

Concerning the determinants of the level of assurance at the individual engagement level, the results show that the Big 5 audit firms consider subject matter to be the most important determinant of the level of assurance, while non-Big 5 audit firms consider work effort to be the most important determinant. Another factor that was commonly identified for determining the level of assurance provided were the needs of the user.

Concerning communication, while negative assurance is a common way of expressing a moderate level of assurance, nearly half of the surveyed audit firms have used ways of expressing moderate assurance in a form other than negative assurance including using positive statements such as 'present fairly'. This may be associated with the finding that audit firms believe there is a relatively poor level of understanding by both the client and third parties between the moderate and high level of assurance.

1. BACKGROUND TO ASSURANCE SERVICES

Following much debate emanating as far back as the mid 1990s, in June 2000 the IAPC issued International Standard on Assurance Engagements (ISAE) 100. Assurance services, as defined in ISAE 100, refer to engagements that involve the 'evaluation or measurement of a subject matter that is the responsibility of another party against identified suitable criteria, in order to express a conclusion that provides the intended user with a level of assurance about the subject matter'.¹

At the time of undertaking the survey (2001), the International Regulatory Framework provided guidance for only high level assurance engagements. However, ISAE 100, paragraph 28 (2001) argued that:

In theory it is possible to provide an infinite range of assurance from a very low level to an absolute level of assurance. In practice, it is not ordinarily practicable to provide such fine graduations ... Therefore professional accountants ordinarily undertake engagements to provide one of only two distinct levels: a high level and a moderate level.

There remained therefore a need for further guidance for moderate assurance engagements.²

ISAE 100 identified the following elements of an assurance engagement that may influence the level of assurance:

- *Subject matter*: Some subject matter is inherently more capable of reliable measurement and support by relatively conclusive evidence.
- *Criteria*: Depending on the nature of the subject matter, some criteria provide a means of more reliable measurement of the subject matter. For example, a lower level of assurance will often be provided when the criteria are qualitative rather than quantitative.
- *Procedures (work effort)*: The higher the level of assurance to be provided, the more comprehensive must be the procedures performed.
- *Quantity and quality of evidence gathered*: The assurance provider will seek to obtain sufficient appropriate evidence as the basis for the assurance provided. In conjunction with the nature and form of the subject matter, criteria and procedures, the reliability of the evidence itself can impact the overall levels of assurance provided.

The elements of ISAE 100 were seen to give rise to two competing models: the interaction of variables view and the work effort view. In the interaction of variables view, the determination of the level of assurance involves consideration of the interrelationship between the above elements of the assurance engagement. According to the interaction of variables view, the assurance provider uses professional judgement to determine the appropriate level of assurance taking into account the interrelationship of the four variables. According to the work effort view, the level of assurance provided is determined, firstly, on the users' needs (including cost considerations), and secondly, by the procedures performed to obtain sufficient appropriate evidence. The criteria and subject matter are viewed as prerequisites to the engagement. Both are considered when deciding whether or not the assurance provider accepts the engagement. Once the assurance provider determines that the criteria and subject matter support an assurance engagement, it is the work effort (the nature, timing and extent of the procedures performed) that determines the level of assurance.

It was on these competing views that the IAPC sought some empirical evidence. This evidence, which formed the basis of the IFAC research study No. 1, is reanalysed here to

provide details of the types and levels of assurance services provided by audit firms, and how these differ between Big 5 and non-Big 5 audit firms.

2. LITERATURE REVIEW

2.1 *Types of assurance services provided*

To date, relatively little empirical research has been conducted on assurance services other than assurance on financial statements. Noteworthy exceptions include Houston and Taylor (1999), Srivastava and Mock (2000) and Hunton *et al.* (2000) who all use WebTrust as their assurance setting, and Fargher and Gramling (1996) who use the Performance Presentation Standards developed by the Association for Investment Management and Research as their research context. These studies deal with new forms of assurance services and user perceptions of these services, but provide little insight into the types of assurance services provided or the determinants and effective communication of different assurance levels.

Descriptive evidence on assurance services, other than financial statement assurance, that are provided by audit firms is contained in See and Mock (1999) for Singapore, and Dassen and Schelleman (2001) for the Netherlands. Numerous professional publications document the details of specific assurance services being provided in practice. Examples include assurance on electronic commerce (Bennett & Sylph, 1998; Muysken, 1998; Pace, 1999), environmental reporting (Beets & Souther, 1999), strategic planning and risk management (English, 1999), information systems (Hughes, 1999), internal control (Grant, 1998) and eldercare (Wolosky, 1998). From this descriptive evidence, it appears that a broad range of assurance services exist, indicating there may be a demand for the provision of assurance at levels other than high. In this respect, Wallage *et al.* (2003) looked into the demand attributes of assurance services and the role of independent accountants.

2.2 *Determinants of the level of assurance*

While there is much literature on the types of assurance services, there are only two empirical papers that have attempted to study any combination of the determinants of the level of assurance in a systematic way. Roebuck *et al.* (2000) use alternative report formats to examine whether

assurance report users differ in their perceived level of assurance as a result of the description of the nature of the engagement (historical versus prospective) and the amount of work performed (high versus low level). The results show that users do not perceive a different level of assurance as a result of the description of work performed, but do respond to subject matter differences. In particular, a higher level of assurance is ascribed to historical subject matter. Furthermore, the results indicate that the preparer is not effective in communicating the intended level of assurance when using the wording suggested at the time by the IAPC. Debreceeny *et al.* (2003) investigate the influence of a desired level of assurance by the client, the nature of the assurance report (positive or negative), the level of client risk, and the task complexity on assurance effort as measured by the level of confidence required by an assurance specialist in endorsing the assurance report. The results of their experiment show that all four factors affect the level of confidence required by the assurance providers to endorse the stipulated level of assurance.

2.3 *Effective communication of the levels of assurance*

As well as determining the level of assurance provided, the effective communication of this level of assurance is equally as important. Communication is central to the assurance function, and as such, one of the fundamental postulates of auditing (Schandl, 1978). Communication theory, dealing with the sharing of information, may provide useful insights for constructing reports on moderate or high assurance.

There are two dominant methods for analysing the communication process: process analysis and semiotic analysis (Fiske, 1990). The process analysis perspective views communication as a one-way linear phenomenon which can be improved by determining better methods of transmitting the message. This approach does not take the human element of communication fully into account.

The semiotic model of communication allows a more complex view of human communication. Semiotic analysis characterizes communication as concerned with the production of meaning through sharing and exchange, and communication can be improved by examining the context of the report and how it affects the interpretation of

the report. Based on these two views, communication can be improved by addressing the nature of the assurance report itself, the channel through which the information is provided, as well as by considering the role of the reader in the process.

From the insights of Schandl (1978), lessons can be learned that are useful in developing an effective reporting model for a moderate assurance level. First, the proposed reporting forms should not stray too far away from current models. Second, there is a need for adequate descriptions of work performed, the scope of the engagement and its limitations, presented in a well-considered structure. Finally, education of the public on assurance services is needed, as well as user-testing of any reporting model developed.

As well as the theoretical perspective, various empirical studies have examined the communication issue in relation to assurance reports. These studies can be subdivided into three categories.

The first category of studies examines the effectiveness of communication associated with reports issued in moderate (limited) assurance engagements. These studies find their origin in the early 1980s when the US introduced the concept of the 'review' of financial information. The focus of these studies is on whether alternative reporting formats are understandable to, and correctly interpreted by, users (e.g. Pany & Smith, 1982; Johnson *et al.*, 1983; Johnson & Pany, 1984; Pilsbury, 1985; Nair & Rittenberg, 1987; Bartlett, 1991; Brown *et al.*, 1993; Gay *et al.*, 1998). From this research, two main implications can be drawn. First, users appear to have difficulties in making the distinction between audit engagements and review engagements based on current methods of reporting. Second, there appears to be a difference between the intended level of assurance provided by the preparer (auditor) and the level of assurance received by the identified user group, resulting in an expectation gap.

The second category of studies dealing with the communication of levels of assurance examines the understanding of the messages conveyed in the communication of assurance providers. Numerous studies have investigated the understandability of the audit report (e.g. Libby, 1979; Bailey, 1981; Holt & Moizer, 1990; Houghton & Messier, 1991; Strawser, 1991). Of particular interest is the research dealing with whether the messages conveyed in qualified reports are communicated

effectively, and whether users perceive adequately different qualifications. The implication from these studies for this study is that the ability to communicate reservations in qualified reports under any level of assurance needs to be considered carefully to ensure effective communication. Furthermore, several studies have investigated the changes in user perceptions arising from alternatively worded reports (e.g. Bailey *et al.*, 1983; Kelly & Mohrweis, 1989; Gay & Schelluch, 1993; Innes *et al.*, 1997). It appears from these studies that revisions in wording have the potential to improve communication significantly. This finding provides the link with the third and last category of studies dealing with the communication of levels of assurance.

The last category of studies focuses on the specific issue of words and phrases, and how varying interpretations of these may have implications for the communication of different levels of assurance. For example, Amer *et al.* (1994) provide evidence on how auditors interpret the terms 'moderate' and 'high'. The use and interpretation of verbal expressions of contingent loss likelihood (e.g. 'reasonably possible', 'probable', 'remote') has also been examined (e.g. Schultz & Reckers, 1981; Jiambalvo & Witner, 1985; Harrison & Tomassini, 1989; Raghunandan *et al.*, 1991; Reimers, 1992). In general, these studies show a low correspondence between auditors' interpretations of verbal probability terms and the associated numerical probabilities. Hence, these studies imply that one must be careful when describing or trying to quantify a level of assurance with such phrases. The lack of consensus by auditors in interpreting the intended level of assurance can lead to an inconsistent application of relevant standards. Hasan *et al.* (2003) examine whether the moderate level of assurance reporting formats used in practice convey a similar level of assurance, and one which is significantly lower than that conveyed by a traditional high level assurance report. They find that this is the case for most forms of moderate assurance reports used in practice except for the case they call an 'agreed upon procedures reporting format'.

3. RESEARCH DESIGN

The current study relies primarily on survey research to collect empirical evidence on the current practice in various national environments

relating to the determinants and communication of assurance levels. The research is descriptive and exploratory in nature, since it deals mainly with questions on current practice. Hence, a questionnaire survey was deemed the most appropriate method to address the following research questions (RQ):

RQ1: What types and levels of assurance services are provided, and does this differ between Big 5 and non-Big 5 audit firms?

RQ2: What is the level of confidence associated with moderate assurance engagements, and does this differ between Big 5 and non-Big 5 audit firms?

RQ3: What is the effect of the following variables on the level of assurance provided: work effort, subject matter, criteria, process, quantity and quality of evidence, and does this differ between Big 5 and non-Big 5 audit firms?

RQ4: How is moderate assurance communicated and is this perceived to be effective?

Included in the survey were questions relating to determinants of and communication of a moderate level of assurance which address the above research questions.³ The questionnaire was based on previous exploratory research on assurance services other than financial statement assurance (See & Mock, 1999; Dassen & Schelleman, 2001); and prior research on determinants of the level of assurance (Roebuck *et al.*, 2000), effective communication (e.g. Gay *et al.*, 1998), understandability of the audit report (e.g. Strawser, 1991) and the use of specific words and phrases (e.g. Amer *et al.*, 1994); along with professional guidelines (ISAE 100 and GRI guidelines).

The questionnaire was discussed with, and pilot-tested by, the members of the IAPC subcommittee on moderate assurance. Subsequently, amendments were made and a consensus was reached on the final version of the questionnaire. The survey was administered to ten audit firms (the Big 5 plus five non-Big 5 audit firms) in each of 11 participating countries: Australia, Brazil, Canada, Denmark, France, Germany, Japan, Mexico, UK, Singapore and the Netherlands.⁴ These countries provide a wide cross-representation of the global business community, and the likelihood of co-operation from each country was believed to be high. As stated earlier, this research was commissioned by

the IAPC which requested the National Institutes of each of these countries to select and contact the Big 5 and five non-Big 5 audit firms in their country to participate in the survey. This resulted in a target sample of 110 audit firms, 55 Big 5 firms and 55 non-Big 5 audit firms. Usable responses from 56 audit firms were received, resulting in an overall response rate of 50.9%. The response rate of the Big 5 audit firms was 31 out of 55 (56%), while the response rate for the non-Big 5 audit firms was 25 out of 55 (45%). The audit firm surveys were mainly completed by technical partners or managers. In case of a low response rate for a country, the technical advisor of the relevant National Institute was contacted to help in undertaking follow-up procedures.

The participating audit firms were also asked to provide up to five examples of innovative moderate assurance reports. They were asked a series of questions for each engagement aimed at identifying the determinants of the level of assurance provided for that engagement. Overall, responses to 166 separate assurance engagements were received, 93 from the 31 participating Big 5 audit firms and 73 from the 25 participating non-Big 5 audit firms.

4. RESULTS

4.1 Types and levels of assurance services provided

To address RQ1 regarding the types of assurance services currently being provided and the level of assurance at which they are provided, the audit firms were asked to describe the types of assurance services they currently provide (other than financial statement assurance), the frequency of provision of those services, and the level of assurance typically provided. For the purpose of analysis and classification, the four categories of assurance services recognized in ISAE 100 are used, namely assurance services with respect to financial data, non-financial information, systems and processes, and behaviour.

With respect to financial data (see Table 1), the most frequently provided assurance services by audit firms are prospective financial information (36 firms), due diligence (22 firms), individual components of the financial statements (18 firms) and budgets (10 firms). Other less common responses include assurance on interim financial statements (6 firms), comfort letters (5 firms), subsidies (grants) (5 firms), income tax returns (5

Table 1: Most frequent categories of assurance services provided with respect to financial data, and the level of assurance at which they are provided

		Big 5 audit firm (N = 31)	Non-Big 5 audit firm (N = 25)
Prospective financial information	For firms providing service, the assurance level at which normally provided:	21 (67.7%)	15 (60.0%)
	Moderate level of assurance engagement	69%	79%
	High level of assurance engagement	14%	7%
	Combined level of assurance engagement	17%	14%
Due diligence	For firms providing service, the assurance level at which normally provided:	8 (25.8%)	14 (56.0%)
	Moderate level of assurance engagement	86%	57%
	High level of assurance engagement	1%	18%
	Combined level of assurance engagement	13%	25%
Individual components	For firms providing service, the assurance level at which normally provided:	10 (32.2%)	8 (32.0%)
	Moderate level of assurance engagement	30%	46%
	High level of assurance engagement	60%	39%
	Combined level of assurance engagement	10%	15%
Budget	For firms providing service, the assurance level at which normally provided:	7 (22.5%)	3 (12.0%)
	Moderate level of assurance engagement	47%	67%
	High level of assurance engagement	53%	25%
	Combined level of assurance engagement	0%	8%

Note: The percentages represent the percentage of respondents providing the particular assurance service, and the level of assurance at which they commonly provide these services.

firms), prospectuses (3 firms) and internal audit (2 firms). In general, assurance on prospective financial information, due diligence, interim financial statements and comfort letters are more likely to be provided with a moderate level of assurance. No systematic differences were identified between the assurance services provided by the Big 5 audit firm respondents compared with the non-Big 5 audit firms, or the level at which the services were provided.

With respect to non-financial information, assurance on environmental performance (28 firms) is the most frequently provided assurance service, as shown in Table 2. In addition, the following services are provided, though to a lesser extent: assurance on performance measures (6 firms), value for money audit (5 firms), intellectual capital (4 firms), internal audit (3 firms), due diligence (3 firms), a social report (2 firms) and prospectuses (2 firms). Assurance on these types of assurance services is mostly at the moderate level of assurance.

With respect to systems and processes, the most frequently provided assurance service by audit firms is on internal control (33 firms), as shown in Table 2. Although provided to a smaller extent, other services that were mentioned are: assurance on CIS systems risk (6 firms), management

system (5 firms), environmental system (4 firms), WebTrust (3 firms), internal audit (2 firms) and security system (2 firms). Assurance on an internal control system, risk management system, environmental system and an internal audit typically appear to be delivered with a moderate level of assurance.

The most frequently provided assurance service with respect to behaviour is assurance on compliance with laws and regulations (27 firms) as shown in Table 2, which is commonly provided at either high or moderate level of assurance. Other assurance services that were mentioned in this category are corporate governance (6 firms) and forensic audit (2 firms), which are both typically provided with a moderate level of assurance. With respect to the types of assurance services provided by the Big 5 versus the non-Big 5 audit firms, there are few differences in types of assurance services provided by these groups of firms.

4.2 Level of confidence for moderate assurance engagements

To address RQ2, the audit firms were asked to identify the percentage of confidence that is provided in general by a moderate level of assurance engagement on a scale ranging from 0%

Table 2: Other types of assurance services commonly provided and the level of assurance at which they are provided

		Big 5 audit firm (N = 31)	Non-Big 5 audit firm (N = 25)
Non-financial information			
Environmental performance	For firms providing service, the assurance level at which normally provided:	18 (58%)	10 (40%)
	Moderate level of assurance engagement	66%	58%
	High level of assurance engagement	20%	42%
	Combined level of assurance engagement	14%	0%
Systems and processes			
Internal control system	For firms providing service, the assurance level at which normally provided:	17 (54.8%)	16 (64.0%)
	Moderate level of assurance engagement	68%	61%
	High level of assurance engagement	29%	25%
	Combined level of assurance engagement	3%	14%
Behaviour			
Compliance	For firms providing service, the assurance level at which normally provided:	18 (58%)	9 (36%)
	Moderate level of assurance engagement	41%	56%
	High level of assurance engagement	52%	33%
	Combined level of assurance engagement	7%	11%

Note: The percentages represent the percentage of respondents providing the particular assurance service, and the level of assurance at which they commonly provide these services.

to 100%. The results show that the average percentage of confidence for a moderate level of assurance engagement is 60%. By means of comparison, the respondents consider that a high level of assurance engagement provides an average percentage of confidence of 88%. The results show that Big 5 audit firms attach, on average, a slightly lower percentage of confidence to a moderate assurance engagement (57%) compared to non-Big 5 audit firms (63%). However, this difference, shown in Table 3, is not statistically significant.

4.3 Analysis at the individual engagement level and the determinants of the level of assurance

To address RQ3 concerning the determinants of the level of assurance provided, the audit firms were each asked to provide and comment on five innovative example reports issued on assurance engagements that provide any level of assurance except absolute or high. On a five-point scale (from a low impact score of 1, to a high impact score of 5) the respondents were asked to indicate to what extent the level of assurance provided in the example report was affected by the following five factors: subject matter, criteria, work effort, quality of evidence, and quantity of evidence. The results in Table 4 show that the mean scores for each of the

potential determinants range between 2.97 and 3.55 with subject matter being the highest rated factor. However, respondents believe that subject matter, criteria, work effort, quality and quantity of evidence all have an impact on the level of assurance provided.

When statistically comparing the results for Big 5 audit firms versus non-Big 5 audit firms, it appears that Big 5 firms consider subject matter as a more important determinant of the level of assurance compared to non-Big 5 firms. Pair-wise comparison of subject matter and the other determinants shows that Big 5 firms consider subject matter statistically as more important than work effort ($p < 0.05$), quantity of evidence ($p < 0.01$) and quality of evidence ($p < 0.01$). Pair-wise comparison of the determinants for non-Big 5 audit firms does not result in any significant differences, except that work effort is considered to be significantly more important than quantity of evidence ($p < 0.05$).

The respondents were also asked to identify other factors influencing the level of assurance provided for that engagement. The results show that the level of assurance provided is also influenced by user needs (71 of 166 engagements), litigation risk (51 of 166 engagements), lack of standards (36 of 166 engagements), distribution of the report (34 of 166 engagements), regulatory requirements (30 of 166 engagements), adequacy of

Table 3: Level of confidence for moderate assurance engagements

	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Standard deviation</i>	<i>t-value (significance, 2-tailed)</i>
Big 5 audit firm	10%	80%	57%	14%	-1.47 (0.14)
Non-Big 5 audit firm	20%	88%	63%	14%	

Scale from 0% to 100%.

Table 4: Determinants of the level of assurance provided for each assurance service

	<i>Average (Big 5 & non-Big 5) (N = 166)</i>	<i>Big 5 audit firm (N = 93)</i>	<i>Non-Big 5 audit firm (N = 73)</i>	<i>t-value (significance, 2-tailed)</i>
Subject matter	3.55	3.88	3.14	3.42 (0.000)
Criteria	3.43	3.59	3.22	1.52 (0.128)
Work effort	3.32	3.36	3.28	0.322 (0.748)
Quantity of evidence	2.97	3.04	2.89	0.678 (0.498)
Quality of evidence	3.25	3.30	3.18	0.518 (0.604)

1 = low impact, 5 = high impact.

Table 5: Perceptions of audit firms of understanding of differences between review versus audit (moderate versus high) levels of assurance by clients and third parties

	<i>Min</i>	<i>Max</i>	<i>Mean</i>	<i>Standard deviation</i>
Understanding by client: difference between review versus audit	1	5	3.24	1.05
Understanding by client: difference between moderate versus high level of assurance	1	4	2.66	1.13
Understanding by third parties: difference between review versus audit	1	5	2.40	0.98
Understanding by third parties: difference between moderate versus high level of assurance	1	5	2.16	1.06

1 = poorly understood, 5 = fully understood.

fees (28 of 166 engagements), and industry practice (18 of 166 engagements).

4.4 Effectively communicating a moderate level of assurance

RQ4 addresses how moderate assurance is communicated and whether this is perceived to be effective. The results show that while negative assurance is a common way of expressing a moderate level of assurance (for example using wording such as 'nothing has come to my attention' as is used in reporting on review engagements on financial statements), nearly half of the surveyed audit firms have used alternative ways of expressing moderate assurance including using positive statements such as 'present fairly'.

An important question is whether users understand the difference between a moderate and a high level of assurance communicated in a report. If the difference is not well understood, better ways to communicate a moderate level of assurance need to be developed.

Table 5 shows (using a scale where 1 represents a poor understanding of the difference and 5 a full understanding) that, according to the surveyed audit firms, all of the differences were perceived to range from being only moderately well understood to being somewhat poorly understood. Most importantly, the perceived difference between a moderate and a high level of assurance is not well understood by clients (rated only as 2.66) and even less so by third parties (rated as 2.16). Perceptions of audit firms of the understanding by the client of the difference between a review and an audit are rated as 3.24 and the understanding by third parties of this difference is rated as 2.40.

These findings suggest that there is some benefit in having defined levels of assurance (i.e. two products) for specific subject matter, and possibly reporting on these levels in a very standardized way (as supported by the semiotic view of communication theory), so that people can clearly associate a level of assurance with a format of report, a situation that currently does not exist, except in the case of financial statements.

Communication problems may also be accentuated when the assurance report contains a modification. Modified opinions on assurance engagements other than financial statement assurance were found to be common, with more than half of the respondents having issued a modified opinion (qualified, disclaimer or adverse) for such an assurance engagement.

5. SUMMARY AND CONCLUSIONS

The purpose of this paper is to extend the findings of a study commissioned by the IAPC (now IAASB) on the determinants and communication of levels of assurance other than high, to a consideration of the provision of these assurance services in the Big 5 audit firms compared with the non-Big 5 audit firms. To achieve this aim, a questionnaire survey was distributed to the Big 5 audit firms and five non-Big 5 audit firms in 11 countries.

The results of the survey show that audit firms currently provide assurance services, other than assurance on financial statements, within each of the four categories of assurance services identified by the IAPC: financial data, non-financial information, systems and processes, and behaviour. Many of these assurance services are provided with a moderate level of assurance. The most common reasons for not providing

a high level of assurance are the nature of the subject matter, the lack of appropriate criteria or performance standards, cost/benefit considerations, lack of appropriate evidence and user needs.

Based on the survey responses, on average, a moderate level of assurance engagement is considered to provide 60% confidence, compared with 88% for a high level of assurance engagement. Big 5 audit firms attach a slightly lower percentage of confidence to a moderate assurance engagement as compared to non-Big 5 audit firms.

Respondent firms were also asked to provide up to five example reports of engagements where other than high assurance was provided, and to answer a series of questions related to each engagement. The results show that the level of assurance is believed to be determined by a number of variables. In particular, it appears that subject matter, criteria, work effort, quantity and quality of evidence all have an influence on the level of assurance provided, irrespective of the type of assurance engagement. Furthermore, other factors appear to influence the level of assurance as well: user needs, litigation risk, lack of standards, distribution of the report, regulatory requirements, adequacy of fees and industry practice.

A common way of communicating a moderate level of assurance is by means of negative assurance. However, the results show that nearly half of the respondents use alternative approaches to express moderate assurance. Communication appears to be an important issue, since the difference between a moderate and a high level of assurance is perceived to be not well understood by users. This is consistent with Roebuck *et al.* (2000). This may be due to the lack of objective criteria and professional standards for the communication of the results of assurance engagements. Hence, the wording of assurance reports should receive careful attention and better ways to communicate a moderate level of assurance could be developed, with wording being clearer, thus avoiding vague and complex terminology. As shown in prior literature (e.g. Innes *et al.*, 1997), revisions in wording have the potential to improve communication significantly. Clearly explaining the level of assurance provided, in both the engagement letter and the introductory paragraph of the report, as well as describing the subject matter and the objective of the

engagement, are suggested ways to enhance users' understanding.

NOTES

1. ISAE 100 has since been replaced by ISAE 3000 (IFAC, 2004), which is effective for assurance engagements where the assurance report is dated on or after January 1, 2005. The definition of assurance engagements in ISAE 3000, paragraph 4, is effectively the same as outlined in ISAE 100.
2. ISAE 100 (renumbered ISAE 3000) has now been extended to provide guidance on both high (reasonable) and limited (moderate) assurance engagements, for subject matter other than audits or reviews of historical financial information.
3. Copies of these instruments are available from the authors.
4. The survey was not administered in the US on advice that questions in the survey did not make sense in view of the attestation standards in place in that country. These standards govern the subject matter on which assurance can be provided, and the level of assurance that can be provided.

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