

STATEMENT OF PRINCIPLE

DEFINITION OF PUBLIC PRACTICE

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INTRODUCTION

1. The main definition of “public practice” in the *Accountants Law 2016* has remained unchanged since the predecessor *Public Accountants Law 2004* was first enacted except that the definition is coupled the term “*public accounting services*” and in the new *Accountants Law* “*compilation and agreed upon procedure services*” was added to the list of services that do not constitute public practice.
2. The purpose of this Statement of Principle is to clarify the meaning of public practice and to highlight the significance of the definition.

SIGNIFICANCE OF THE DEFINITION

3. Those persons engaged in public practice must be licensed by CIIPA and those persons engaging in public practice without holding a licence commit an offence.¹
4. Any person that is licensed may only provide the public practice services through a registered public practice firm, which provides for quality assurance reviews of the firms.

DEFINITION OF PUBLIC PRACTICE

5. Section 2 defines public practice as *“the performance of public accounting services for profit or reward”* where *public accounting services* means:
 - a. *“Signing, affixing or associating one’s name or the name of the firm of public accountants of which one is a partner, director or the holder of an equivalent public position to **any report or certificate expressing or disclosing an opinion on the financial statement based on an audit or examination of that financial statement or expressing assurance on a financial statement**”*

ASSURANCE ENGAGEMENTS

6. As defined in the IAASB Handbook -

“An Assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). Each assurance engagement is classified.... As either a reasonable assurance engagement or a limited assurance engagement:

 - a. **Reasonable assurance engagement** - *An assurance engagement in which the practitioner reduced engagement risk² to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.*

¹ Sections 11 and 12 Accountants Law.

² Assurance engagement risk is the risk that the practitioner expressed an inappropriate conclusion when the subject matter information is materially misstated.

b. **Limited assurance engagement** – *An assurance engagement in which the practitioner reduced engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether based on the procedures performed and the evidence obtained a matter(s) has come to the practitioners attention to cause the practitioner to believe the subject matter information is materially misstated. The nature timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is in the practitioner’s professional judgement meaningful. To be meaningful the level of assurance obtained by the practitioner is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential.”*

7. The following are the main two types of assurance engagements conducted from or within the Cayman Islands but there are others.

AUDIT SERVICES

8. An audit is the highest level of financial statement assurance. An audit includes examining evidence on a test basis supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.
9. The role of the auditor is to express an opinion on fair presentation of financial statements.

REVIEW SERVICES

10. A review consists mainly of inquiries of client personnel and analytical procedures applied to financial data and it is substantially smaller in scope than an audit but in many instances, a review is sufficient for a company and its creditors.
11. A review provides limited assurance on financial statements.

“EXCLUSIONS”

12. The definition in the Law whilst adequately describing assurance engagements does add a list of services that do not constitute *public practice* and the purpose of this was to avoid any

doubts when the Law was first enacted. (Technically the list of exclusions is not necessary since they do not amount to assurance engagements.) These services are:

- “(a) Bookkeeping or cost accounting*
- (b) Installing bookkeeping accounting, business or cost systems*
- (c) Preparing trial balances financial statements or reports provided that the person so preparing does not indicate or in any way imply that the trial balances, financial statements or reports have been examined by a sole practitioner public accountant or a firm of public accountants or that they represent the opinion or certificate of a sole practitioner public accountant or a firm of public accountants;*
- (d) Providing compilation and agreed upon procedure services;*
- (e) Reviewing accounts and accounting methods for the purposes of determining the efficiency of these methods provided that the person so reviewing does not indicate or in any way imply that the methods have been reviewed by a sole practitioner public accountant or firm of public accountants; or*
- (f) Acting as an insolvency practitioner in relation to a company, an individual or a partnership and for this purpose a person acts as an insolvency practitioner by acting -*
 - (i) in relation to a company, as its liquidator including, without limitation, an official liquidator and a liquidator in a voluntary winding up, provisional liquidator, receiver, controller or in any capacity similar to any of the foregoing in circumstances where the company is or may become insolvent or unable to pay its debts as they fall due in the ordinary course of business or action is being or has been taken by the Authority in respect of the company; or*
 - (ii) in relation to an individual or a partnership, as his or their trustee in bankruptcy, receiver of his or their property, controller, trustee in the sequestration of his or their estate, trustee under a deed of arrangement made for the benefit of his or their creditors, in the case of a deceased individual where the estate is insolvent, administrator of the estate or in any capacity similar to any of the foregoing in circumstances where the individual or partnership is or may become insolvent or unable to pay his or their debts as they fall due in the ordinary course of business or action is being or has been taken by the Authority in respect of the individual or partnership;.....”*

PROFIT OR REWARD

13. The term “for profit or reward” is currently included in the definition of public practice such that technically, any assurance engagement that is provided in the absence of a fee or other consideration does not require the person to be licensed.
14. Typically, this is done where the client is a not for profit organisation relying on donations and/or government sponsorship and so the provision of public practice services is a type of donation or *pro bono work* by the person providing it.
15. In many cases the person providing the service is licensed by CIIPA and in that case CIIPA would expect those persons to conduct the service in accordance with the same standards and controls that would apply if conducted for a fee.
16. Where the person is not licensed by CIIPA it is vital that this does not result in inappropriate results whereby standards are not followed for assurance work. For those persons that are Regular members of CIIPA grounds for investigation may arise where the member breaches professional or ethical standards or acts in a manner that will bring the Institute into disrepute.
17. Further, any person that holds him or herself out as being a licensed practitioner commits an offence.

FURTHER INFORMATION

18. If you are unsure whether your services amount to *public practice* please contact the CIIPA office for guidance.