

STANDARD ON ASSURANCE ENGAGEMENTS
100
FRAMEWORK FOR ASSURANCE ENGAGEMENTS INTENDED TO
PROVIDE EITHER A HIGH OR MODERATE LEVEL OF ASSURANCE

*(Effective for assurance engagements intended to provide either a high or moderate level of assurance where the report is dated on or after 1 October 2001, but will be withdrawn when HKSAE 3000 becomes effective.)**

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* HKSAE 3000 "Assurance engagements other than audits or reviews of historical financial information" is effective for assurance engagements where the assurance report is dated on or after 1 January 2005.

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This Standard on Assurance Engagements provides an overall framework for assurance engagements intended to provide either a high or moderate level of assurance.

Introduction

1. This Standard on Assurance Engagements (SAE) has two purposes:
 - a. to describe the objective and elements of assurance engagements intended to provide either a high or moderate level of assurance; and
 - b. to act as a framework for the development by the Auditing and Assurance Standards Committee of the Hong Kong Institute of Certified Public Accountants (HKICPA) of specific standards for particular types of assurance engagements in future.

SAEs do not supersede the existing Statements of Auditing Standards issued by the HKICPA. For example, they do not apply to an audit of financial statements or review of interim financial reports.

Objective of an assurance engagement

2. The objective of an assurance engagement is for members to evaluate or measure a subject matter that is the responsibility of another party against identified suitable criteria, and to express a conclusion that provides the intended user with a level of assurance about that subject matter. Assurance engagements performed by members are intended to enhance the credibility of information about a subject matter by evaluating whether the subject matter conforms in all material respects with suitable criteria, thereby improving the likelihood that the information will meet the needs of an intended user. In this regard, the level of assurance provided by the members' conclusion conveys the degree of confidence that the intended user may place in the credibility of the subject matter.
3. There is a broad range of assurance engagements, which includes any combination of the following:
 - a. Engagements to report on a broad range of subject matters covering financial and non-financial information.
 - b. Engagements intended to provide high or moderate level of assurance.
 - c. Attest and direct reporting engagements.
 - d. Engagements to report internally and externally.
 - e. Engagements in the private and public sector.
4. Not all engagements performed by members are assurance engagements. This does not mean that members do not undertake such engagements, only that these engagements are not covered by this SAE. Other engagements frequently performed by members that are not assurance engagements include the following:
 - a. Agreed-upon procedures.
 - b. Compilation of financial or other information.
 - c. Preparation of tax returns where no conclusion is expressed, and tax consulting.
 - d. Management consulting.
 - e. Other advisory services.

5. An agreed-upon procedures engagement, in which the party engaging the members or the intended user determines the procedures to be performed and the members provide a report of factual findings as a result of undertaking those procedures, is not an assurance engagement. While the intended user of the report may derive some assurance from the report of factual findings, the engagement is not intended to provide, nor do the members express, a conclusion that provides a level of assurance. Rather, the intended user assesses the procedures and findings and draws his or her own conclusions. However, members may undertake an engagement that is similar to an agreed-upon procedures engagement but which does result in the expression of a conclusion that provides a level of assurance. Where, in the judgement of the members, the procedures agreed to be performed are appropriate to support the expression of a conclusion that provides a level of assurance on the subject matter, and the members intend to do so, then such an engagement becomes an assurance engagement governed by this SAE.

Elements of an assurance engagement

6. Whether a particular engagement is an assurance engagement will depend upon whether it exhibits all the following elements:
 - a. a three party relationship involving:
 - i. the members;
 - ii. a responsible party; and
 - iii. an intended user;
 - b. a subject matter;
 - c. suitable criteria;
 - d. an engagement process;
 - e. a conclusion.

Three party relationship

7. Assurance engagements involve three separate parties: the members, a responsible party and an intended user. The members provide assurance to the intended user about a subject matter that is the responsibility of another party.
8. The responsible party and the intended user will often be from separate organizations but need not be. A responsible party and an intended user may both be within the same organization, for example, a governing body may seek assurance about information provided by a component of that organization. The relationship between the responsible party and the intended user needs to be viewed within the context of a specific engagement and may supersede more traditionally defined responsibility lines.

Members

9. The term "members" in this SAE includes the term "auditors" who perform an engagement to provide a "high level of assurance", but also recognizes that assurance engagements deal with a broader range of subject matter and reporting arrangements than the issue of an audit opinion by external auditors on financial statements.
10. Members have to observe the requirements of the Professional Ethics Statements of the HKICPA.
11. Ethical principles governing members' professional responsibilities are:
 - a. independence;
 - b. integrity;
 - c. objectivity;
 - d. professional competence and due care;

- e. confidentiality;
 - f. professional behaviour; and
 - g. technical standards.
12. The requirement relating to the "objectivity" principle is of particular importance in an assurance engagement in ensuring that the conclusion of the members have value to the intended user. The intended user needs to have confidence that the members have no interest that creates an unacceptable risk of bias with respect to the subject matter.
 13. Members may be requested to perform an assurance engagement on a wide range of subject matters. However, members will not agree to perform an assurance engagement which they are not competent to carry out, unless competent advice and assistance is obtained so as to enable them to satisfactorily perform such services. If members do not have the competence to perform a specific part of the assurance engagement, technical advice will be sought from experts.

Responsible party

14. The responsible party is the person or persons, either as individuals or representatives of an entity, responsible for the subject matter. For example, management is responsible for the preparation of financial statements or the implementation and operation of internal control. The responsible party may or may not be the party who engages the members. The members may be engaged by management or by other parties.

Intended user

15. The intended user is the person or class of persons for whom the members prepare the report for a specific use or purpose. The intended user may be established by agreement between the members and the responsible party or those engaging or employing the members. In some circumstances the intended user may be established by law. The responsible party may also be one of the intended users. Often the intended user will be the addressee of the report issued by the members but there may be circumstances where there will be intended users other than the addressee. There may also be situations where the responsible party will be the addressee, but will make the report available to the intended users.
16. Some intended users (for example, bankers and regulators) may impose a requirement on, or may request the responsible party to arrange for an assurance engagement to be carried out on a particular subject matter. However, other intended users may have no direct involvement in defining the arrangements for an assurance engagement.
17. In circumstances where the engagement is for a special purpose, the members may consider restricting the report to specific intended users, and indicating in a restriction in the report that others not identified as users may not rely on it.

Subject matter

18. The subject matter of an assurance engagement may take many forms, such as the following:
 - a. Data (for example, historical or prospective financial information, statistical information, performance indicators).
 - b. Systems and processes (for example, internal controls).
 - c. Behaviour (for example, corporate governance, compliance with regulations, human resource practices).

The subject matter may be presented as at a point in time or covering a period of time.

19. The subject matter of an assurance engagement is to be identifiable, capable of consistent evaluation or measurement against suitable criteria and in a form that can be subjected to procedures for gathering evidence to support that evaluation or measurement.

Criteria

20. Criteria are the standards or benchmarks used to evaluate or measure the subject matter of an assurance engagement. Criteria are important in the reporting of a conclusion by members as they establish and inform the intended user of the basis against which the subject matter has been evaluated or measured in forming the conclusion. Without this frame of reference any conclusion is open to individual interpretation and misunderstanding. Criteria in an assurance engagement need to be suitable to enable reasonably consistent evaluation or measurement of the subject matter within the context of professional judgement. Suitable criteria are context-sensitive, that is, relevant to the engagement circumstances.
21. For example, in the preparation of financial statements the criteria may be Statements of Standard Accounting Practice issued by the HKICPA or International Accounting Standards, which are intended to provide a range of users with relevant and consistent information about an entity's financial position, results of operations and cash flows. In an audit of financial statements, the members provide assurance as to whether the financial statements give a true and fair view of (or present fairly, in all material respects) an entity's financial position, results of operations and cash flows by using the accounting framework to evaluate the preparation and presentation of the subject matter. When reporting on the way in which an entity is organized or managed, or the extent to which its objectives have been achieved, generally accepted criteria for a particular industry may be used. When reporting on internal control, the criteria may be an established internal control framework or stated internal control criteria. When reporting on compliance, the criteria may be the applicable law, regulations or contract. Criteria may also be developed for specific users, for example, a party to a contract who wants assurance that other parties to the same contract are complying with the contract terms.

Engagement process

22. The engagement process for an assurance engagement is a systematic methodology requiring a specialized knowledge and skill base, and techniques for evidence gathering and evaluation and measurement to support a conclusion, irrespective of the nature of the engagement subject matter. The process involves the members and those who engage the members agreeing to the terms of the engagement. Within that context, the members consider materiality and the relevant components of engagement risk when planning and conducting the engagement. An assurance engagement involves the members planning and conducting the engagement to obtain sufficient appropriate evidence and applying professional judgement in order to express a conclusion.

Conclusion

23. The members express a conclusion that provides a level of assurance as to whether the subject matter conforms in all material respects with the identified suitable criteria.
24. In an attest engagement, the members' conclusion relates to an assertion by the responsible party. The assertion is the responsible party's conclusion about the subject matter based on identified suitable criteria. The members can either express a conclusion about the assertion by the responsible party, or provide a conclusion about the subject matter in a form similar to the assertion made by the responsible party. In the latter case the assurance is provided because the members' conclusion on the subject matter supports the assertion by the responsible party.
25. In a direct reporting engagement, the members express a conclusion on the subject matter based on suitable criteria, regardless of whether the responsible party has made a written assertion on the subject matter.
26. The members' conclusion provides a level of assurance about the subject matter. In theory, it is possible to provide an infinite range of assurance from a very low level of assurance to an absolute level of assurance. In practice, it is not ordinarily practicable to design an engagement to provide such fine graduations of assurance or to communicate the level of assurance in a clear and unambiguous manner. In addition, absolute assurance is generally not attainable as a result of such factors as the use of selective testing, the inherent limitations of control systems, the fact that much of the evidence available to the members is persuasive rather than conclusive, and the use of judgement in gathering evidence and drawing conclusions based on that evidence. Therefore, members ordinarily undertake engagements to provide one of only two distinct levels: a high level and a moderate level. These engagements are affected by various elements, for example, the degree of precision associated with the subject matter, the nature, timing and extent of procedures, and the sufficiency and appropriateness of the evidence available to support a conclusion.

27. The expression "high level of assurance" refers to the members having obtained sufficient appropriate evidence to conclude that the subject matter conforms in all material respects with identified suitable criteria. In rare circumstances, the members may be able to provide absolute assurance, for example, where the evidence available is conclusive and reliable because the subject matter is determinate, the criteria definitive and the process applied comprehensive. However, because of the limitations of the engagement process, a high level of assurance is ordinarily less than absolute. The members design the engagement to reduce to a low level the risk of an inappropriate conclusion that the subject matter conforms in all material respects with identified suitable criteria.
28. The expression "moderate level of assurance" refers to the members having obtained sufficient appropriate evidence to be satisfied that the subject matter is plausible in the circumstances. The members design the engagement to reduce to a moderate level the risk of an inappropriate conclusion. The members design the report to convey a moderate level of assurance regarding the conformity of the subject matter with identified suitable criteria.

Compliance with International Standard on Assurance Engagements

29. This SAE complies in all material respects with the framework for assurance engagements intended to provide either a high or moderate level of assurance in International Standard on Assurance Engagements 100.

Effective date

30. This SAE is effective for assurance engagements intended to provide either a high or moderate level of assurance where the report is dated on or after 1 October 2001, but will be withdrawn when HKSAE 3000 "Assurance engagements other than audits or reviews of historical financial information" becomes effective.