

Assurance Engagements

Proposed “International Framework For Assurance Engagements,”

Proposed ISAE 2000 “Assurance Engagements On Subject Matters Other Than Historical Financial Information”

and

Proposed Withdrawal of ISA 120 “Framework of International Standards on Auditing”

To Replace International Standard on Assurance
Engagements 100, Assurance Engagements



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REQUEST FOR COMMENTS

This exposure draft and accompanying explanatory memorandum of the International Auditing and Assurance Standards Board (IAASB) were approved for publication in March 2003. The proposed pronouncements may be modified in the light of comments received before being issued in final form.

Commentators' Guide and Consideration of Specific Issues

The IAASB welcomes comments on the exposure draft. In responding to the exposure draft, commentators are requested to refer to the relevant paragraphs within the proposed International Framework for Assurance Engagements and proposed International Standard on Assurance Engagements. The responses should include the reasons for the comments, including specific suggestions for any proposed changes to wording.

Comments should be submitted so as to be received by **June 30, 2003**, preferably by e-mail or on a computer disk, or in writing. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director
International Auditing and Assurance Standards Board
535 Fifth Avenue, 26th Floor
New York, New York 10017 USA

E-mail responses should be sent to: EDComments@ifac.org

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides some background to, and explanation of, the proposed “International Framework for Assurance Engagements” and International Standard on Assurance Engagements (ISAE) 2000 “Assurance Engagements on Subject Matters Other Than Historical Financial Information,” which have been approved for exposure by the International Auditing and Assurance Standards Board (IAASB). It is proposed that these documents will replace ISAE 100 “Assurance Engagements” and that ISA 120 “Framework of International Standards on Auditing” will be withdrawn.

Currently, the IAASB literature establishes basic principles and essential procedures for:

- (a) Both the audit and review of historical financial information; and
- (b) What ISAE 100 terms “high level” assurance engagements on subject matters other than historical financial information.

It does not however establish basic principles and essential procedures for what ISAE 100 terms “moderate level” assurance engagements. An objective of this proposal is to establish basic principles and essential procedures for all assurance engagements.

Background

In August 1997, the International Auditing Practices Committee (IAPC) (predecessor to the IAASB) issued an Exposure Draft “Reporting on the Credibility of Information.” This initiative recognized the increasing demand for information on a broad range of subject matters to meet the needs of decision-makers, and the consequent need in both the private and public sectors for services that enhance the credibility of that information. The Exposure Draft introduced the concept of a continuum of levels of assurance that could be provided, with the level of assurance provided in a particular engagement being dependent upon the interrelationship of four variables:

- (a) Subject matter;
- (b) Criteria;
- (c) Nature, timing, and extent of procedures; and
- (d) Quantity and quality of evidence available.

The IAPC received strong support for the aims of the 1997 Exposure Draft. The vast majority of respondents agreed with the concept of a continuum of levels of assurance. However, many respondents believed that the concept would be difficult to apply in practice, and in particular that it would be difficult to ensure that any report would convey the level of assurance with the necessary precision.

In order to address the concerns expressed by respondents, the IAPC concluded that significant changes needed to be made to the 1997 Exposure Draft and, as a result, issued a second Exposure Draft “Assurance Engagements,” in March 1999. This Exposure Draft retained the concept of the continuum, but restricted the levels of assurance being provided to two levels: a high level and a moderate level.

The responses to the 1999 Exposure Draft continued to support the underlying concepts in the document. There was agreement on how the concepts would be applied to assurance engagements intended to provide a high level of assurance. However, there was disagreement as to how the concepts would be applied to assurance engagements intended to provide a moderate level of assurance. A number of respondents believed that the model did not provide sufficient guidance, as it did not explain adequately the interaction of the variables and how they result in a moderate level of assurance. In addition, there was no consensus on how the moderate level of assurance is best

communicated. Two alternative models for the moderate level of assurance were identified: one based on the interaction of the variables and the other based on work effort.

In June 2000, the IAPC issued ISAE 100 “Assurance Engagements,” taking into account the comments received on the 1999 Exposure Draft. In view of the support that the framework received, and the fact that there was agreement on the requirements for a high level assurance engagement, ISAE 100 provides a framework for all assurance engagements – both moderate level and high level assurance engagements – and establishes basic principles and essential procedures for the performance of engagements intended to provide a high level of assurance. In view of the lack of agreement on a Standard for engagements intended to provide a moderate level of assurance however, the IAPC decided not to publish such a Standard at that time.

During 2001, IAPC commissioned research from an international consortium of academics. The research comprised:

- (a) A survey of practitioners in 12 countries, asking them to provide example moderate assurance reports, and to complete a questionnaire about those reports and about other aspects of moderate assurance;
- (b) A survey of the national institutes in each of those 12 countries, including questions about national standards, regulations, practices etc.; and
- (c) A literature review, covering not only literature from the accounting/auditing field, but also relevant literature from other disciplines.

The researcher’s findings were published in 2002 in the monograph “Determination and Communication of Levels of Assurance Other Than High,” which is available on the IAASB’s website at www.iaasb.org.

The Current Exposure Draft

Structure

As explained in the IAASB’s November 2002 Exposure Draft “Proposed Terms of Reference, Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services and Operations Policy No 1 – Bold Type Lettering,” the IAASB intends to restructure its Auditing and Assurance Handbook. As part of that restructure, the current ISAE 100 will be split into 2 documents:

- (a) “International Framework for Assurance Engagements” (the Framework), the purpose of which is to define and describe the elements of an assurance engagement, and identify those engagements to which International Standards on Auditing (ISAs) and International Standards on Assurance Engagements (ISAEs) apply. It provides a frame of reference for professional accountants in public practice (practitioners) and others involved with assurance engagements, such as those engaging a practitioner, and for the development by the IAASB of ISAs for audits and reviews of historical financial information, and ISAEs for assurance engagements on other subject matters.
- (b) ISAE 2000 “Assurance Engagements on Subject Matters Other Than Historical Financial Information,” the purpose of which is to establish basic principles and essential procedures for, and provide guidance to, practitioners for the performance of assurance engagements on subject matters other than historical financial information, which are covered by ISAs, where no specific ISAE(s) exists.

The November 2002 Exposure Draft also noted the IAASB’s intention to create a further document called ISA 100 “Audits and Reviews of Historical Financial Information,” comprising a merged and revised ISA 120 “Framework of International Standards on Auditing,” and ISA 200 “Objective and General Principles Governing an Audit of Financial Statements.” Apart from the changes to ISA 200 that are currently on exposure as part of the October 2002 Exposure Draft “Audit Risk,” and the

addition of the current ISA 120.19,¹ the IAASB does not intend to make further changes to ISA 200 before re-designating it as ISA 100 “Audits and Reviews of Historical Financial Information.” When this happens and the revisions to ISAE 100 as exposed herein are finalized, the existing ISA 120 will be withdrawn without replacement.

“Work Effort” Versus “Interaction of Variables”

As indicated above, the main issue outstanding when ISAE 100 was issued in June 2000 related to differences between the interaction of the variables view and the work effort view. The rationale for each of these views is described in a report published with ISAE 100 (available at www.iaasb.org).

The approach adopted in the Exposure Draft has elements of both the work effort view and the interaction of variables view but is not predicated solely on either of these two views. For example, the form of expression to be used in the practitioner’s conclusion in an assurance report will be determined by the level of evidence gathering procedures performed, but the assurance report will also need to disclose characteristics of the subject matter when they are relevant to the assurance obtained.

The significant characteristics of the approach adopted with respect to each of the four variables previously identified are outlined below.

- (a) *Nature, timing, and extent of evidence gathering procedures:* The Exposure Draft recognizes that variations in the nature, timing and extent of evidence gathering procedures will affect the assurance obtained by the practitioner. It also recognizes that in theory, it may be possible to have infinite variations in the nature, timing and extent of evidence gathering procedures, but that in practice, it is not ordinarily possible to communicate fine gradations in a clear and unambiguous manner. Therefore, the Exposure Draft establishes that in any assurance engagement, the practitioner reports in the form appropriate to one of only two distinct levels of evidence gathering procedures, which are called for ease of reference: an audit-level and a review-level. The major differences between an audit-level engagement and a review-level engagement are outlined in the appendix to the Framework.
- (b) *Subject matter:* The Exposure Draft requires the subject matter of an assurance engagement to be identifiable, capable of consistent evaluation or measurement against identified, suitable criteria, and in a form that can be subjected to procedures for gathering evidence to support that evaluation or measurement. It also recognizes that variations in the characteristics of the subject matter will affect the quantity and quality of evidence available and the assurance obtained by the practitioner. The Exposure Draft therefore establishes that relevant characteristics of the subject matter, such as the extent to which it is: qualitative versus quantitative, objective versus subjective and historical versus prospective, are to be described in the assurance report, regardless of whether an audit-level engagement or a review-level engagement is performed.
- (c) *Criteria:* The IAASB has taken the position in the Exposure Draft that variations in criteria will not affect the assurance obtained by the practitioner. Rather, the Exposure Draft establishes that for all assurance engagements, criteria need to be suitable to enable reasonably consistent evaluation or measurement of the subject matter within the context of professional judgment. An implication of this approach is that the test for suitability of criteria is the same for both audit-level engagements and review-level engagements. Therefore, if particular criteria are not suitable for an audit-level engagement they will not be suitable for a review-level engagement.

¹ ISA120.19 states: “An auditor is associated with financial information when the auditor attaches a report to that information or consents to the use of the auditor’s name in a professional connection. If the auditor is not associated in this manner, third parties can assume no responsibility of the auditor. If the auditor learns that an entity is inappropriately using the auditor’s name in association with financial information, the auditor would require management to cease doing so and consider what further steps, if any, need to be taken, such as informing any known third party users of the information of the inappropriate use of the auditor’s name in connection with the information. The auditor may also believe it necessary to take other action, for example, to seek legal advice.”

- (d) *Quantity and quality of evidence available:* As noted in the discussion of “subject matter” in (b) above, characteristics of the subject matter affect the quantity and quality of evidence available. The Exposure Draft also notes that limitations on the quantity and quality of evidence available due to the particular circumstances of the engagement other than the characteristics of the subject matter can be a variable, i.e. the particular circumstances of an engagement may occasionally make it possible to express an unqualified review-level conclusion but not an unqualified audit-level conclusion. In circumstance such as these, the practitioner needs to consider whether it is appropriate to provide a review-level conclusion. More commonly however, a limitation in the quantity and quality of evidence that is not related to the characteristics of the subject matter will result in a qualified assurance report at either the audit-level or the review-level (or withdrawal from the engagement).

“Level(s) of Assurance”

This Exposure Draft does not use the term “level(s) of assurance.” As noted above, it does however establish that practitioners report in the form appropriate to one of only two distinct levels of evidence gathering procedures: an audit-level and a review-level. While it is accepted that each of these levels of evidence gathering procedures will, all else remaining equal, produce a different level of assurance, using the term “level(s) of assurance” tends to:

- Overemphasize the relative importance of the quantitative aspects of that assurance rather than aspects of its nature, both of which are affected by the variables mentioned above; and
- Invite oversimplification of the complex relationships that exist among these variables.

For example, it is not helpful to attempt to equate or compare the “level of assurance” for two engagements that are distinguished by both:

- Totally different subject matters, one being highly quantitative but entirely future oriented and the other being highly qualitative but entirely historical; and
- Totally different procedures, possibly in terms of both timing and extent, as well as nature.

Similarly, the Exposure Draft does not use the terms “high assurance” and “moderate assurance,” but rather, “reasonable assurance” and “limited assurance.”

Terminology

The terminology in both the Framework and ISAE 2000 has been amended to consistently refer to the fact that practitioners *obtain* assurance and *provide* a conclusion that conveys that assurance. This terminology recognizes the substance and reality of how assurance engagements add value to information and that the assurance a user takes from a practitioner’s assurance report may be different from the assurance the practitioner obtains from the evidence gathering processes that represent the essence of what a practitioner does to reach a conclusion. Existing ISAs will also be amended in future to consistently adopt this terminology.

Written Reports

The current ISAE 100 allows for assurance reports to be oral or symbolic. The Exposure Draft requires that all assurance reports be issued in writing. This is done to avoid misunderstandings that could result from oral and other forms of expressing conclusions without the support of a written report.

Definition of “Assurance Engagement”

While the current version of ISAE 100 lists elements that should be found in any “assurance engagement,” it does not provide a definition of the term. The Exposure Draft proposes a concise definition, which includes all the essential characteristics that make an engagement an assurance engagement. Other characteristics not included in the definition, e.g. sufficient appropriate evidence, are required for engagements that display the essential characteristics included in the definition.

PROPOSED INTERNATIONAL FRAMEWORK FOR ASSURANCE ENGAGEMENTS
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Introduction

1. The purpose of this Framework is to define and describe the elements of an assurance engagement, and to identify those engagements to which International Standards on Auditing (ISAs) and International Standards on Assurance Engagements (ISAEs) apply. It provides a frame of reference for:
 - (a) Professional accountants in public practice (hereinafter referred to as “practitioners”) when performing assurance engagements. Professional accountants in the public sector refer to the Public Sector Perspective at the end of the Framework. Other professional accountants not in public practice are encouraged to refer to the Framework when performing assurance engagements;¹
 - (b) Others involved with assurance engagements, including the intended users of an assurance report and those responsible for the subject matter of an assurance engagement; and
 - (c) The development by the International Auditing and Assurance Standards Board (IAASB) of ISAs for audits and reviews of historical financial information and of ISAEs for assurance engagements on other subject matters.
2. The following is an overview of this Framework:
 - *Introduction:* This Framework deals with assurance engagements performed by practitioners. It provides a frame of reference for practitioners and others involved with assurance engagements, such as those engaging a practitioner.
 - *Definition of an assurance engagement and scope of the Framework:* This section defines what is meant by assurance engagements and distinguishes them from other engagements performed by practitioners, such as consulting engagements. It identifies certain characteristics of assurance engagements that must be exhibited before a practitioner can accept such an engagement.
 - *Elements of an assurance engagement:* This section identifies and discusses five elements that all assurance engagements performed by practitioners exhibit: a three party relationship, a subject matter, suitable criteria, evidence and an assurance report. It explains important distinctions between the two types of assurance engagement that are permitted to be performed by a practitioner: an audit-level engagement and a review-level engagement.² The key distinctions between these two types of engagement are outlined in the Appendix. This section also discusses the significant variation in the subject matters of assurance engagements, the characteristics that criteria must have to be considered suitable, the role of risk and materiality in assurance engagements, and the form of expression to be used for conclusions on each of the two types of assurance engagement.

Ethical Principles and Quality Control Standards

3. In addition to this Framework and ISAs and ISAEs, practitioners who perform assurance engagements are governed by the IFAC *Code of Ethics for Professional Accountants* (the

¹ When this Framework is being applied by a professional accountant not in public practice; and:

- (a) This Framework, the ISAs or the ISAEs are referred to in the professional accountant’s report; and
- (b) The professional accountant or other members of the assurance team and, when applicable, the firm, network firm or equivalent (e.g., the practitioner’s employer), are not independent of the entity in respect of which the assurance engagement is being performed,

the lack of independence and the nature of the relationship(s) with the entity are prominently disclosed in the professional accountant’s report, which does not include the word “independent” in its title, and the purpose and users of the report are restricted.

² This Framework uses the terms “audit-level engagement” and “review-level engagement” to distinguish between these two types of assurance engagement. These terms are used for ease of reference only, and it is recognized that various other names may be used for each, including “audit” or “examination,” and “review” or “limited review.”

Code), which establishes fundamental ethical principles for professional accountants, and International Standards on Quality Control (ISQCs), which establish standards and provide guidance on a firm's system of quality control.³

4. The fundamental ethical principles that all professional accountants are required to observe are set out in Part A of the Code.⁴ Those principles are:
 - (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality;
 - (e) Professional behavior; and
 - (f) Technical standards.
5. Practitioners also observe Part B of the Code, which includes a conceptual approach to independence that takes into account, for each assurance engagement, threats to independence, accepted safeguards and the public interest. It requires firms and members of assurance teams to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate these threats or to reduce them to an acceptable level by the application of safeguards.

Definition of an Assurance Engagement and Scope of the Framework

6. "Assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence that intended users⁵ can have about the evaluation or measurement of a subject matter that is the responsibility of a party, other than the intended users⁶ or the practitioner, against criteria.
7. While there may be many engagements that could meet this definition, a practitioner does not accept an assurance engagement unless the practitioner has the necessary competence and the practitioner's preliminary knowledge of the engagement circumstances indicates that the engagement exhibits all the following characteristics:
 - (a) The subject matter is identifiable, capable of consistent evaluation or measurement against identified, suitable criteria, and in a form that can be subjected to procedures for gathering evidence to support that evaluation or measurement;
 - (b) The criteria to be used are suitable and are available to the intended users;
 - (c) Sufficient appropriate evidence to support the practitioner's conclusion is available; and
 - (d) The practitioner's conclusion, in the form appropriate to either an audit-level engagement or a review-level engagement, is to be contained in a written report.
8. Not all engagements performed by practitioners are assurance engagements. Other engagements frequently performed by practitioners that do not meet the definition of an assurance engagement and which are therefore not covered by this Framework include:
 - Engagements covered by International Standards for Related Services, including:
 - Agreed-upon procedures.

³ Additional standards and guidance on quality control procedures for specific types of assurance engagement are set out in ISAs and ISAEs.

⁴ The Code referred to here is the version revised and issued in November 2001. Section 8 "Independence for Assurance Engagements" of that version is applicable to assurance engagements when the assurance report is dated on or after December 31, 2004. Earlier application is encouraged.

⁵ Use of the term "intended users" in this Framework includes cases when there is only one intended user.

⁶ The responsible party can be one of the intended users, but not the only one.

- Compilation of financial or other information.

- The preparation of tax returns where no conclusion conveying assurance is expressed.
 - Consulting engagements⁷ such as tax consulting, or engagements in which a practitioner is engaged to testify as an expert witness in accounting, auditing, taxation or other matters given stipulated facts.
9. An assurance engagement may be part of a larger engagement, e.g., when a business acquisition consulting engagement includes conveying assurance regarding historical or prospective financial information. In such circumstances, ISAs and ISAEs apply only to the assurance portion of the engagement.⁸
10. A report issued by a practitioner in connection with an engagement that is not an assurance engagement, but which a user of the report could otherwise reasonably mistake for an assurance engagement, is written so as to clearly distinguish it from an assurance report. It is not sufficient for a report that could otherwise reasonably be mistaken for an assurance report to merely exclude reference to ISAs or ISAEs.

Elements of an Assurance Engagement

11. An assurance engagement performed by a practitioner exhibits all of the following elements, each of which is discussed below.
- (a) A three party relationship involving:
 - (i) A practitioner;
 - (ii) A responsible party; and
 - (iii) The intended users;
 - (b) A subject matter;
 - (c) Suitable criteria;
 - (d) Evidence; and
 - (e) An assurance report.

Three Party Relationship

12. Assurance engagements always involve three separate parties: a practitioner, a responsible party and the intended users. The practitioner gathers evidence to obtain assurance and provide a conclusion to the intended users about whether a subject matter that is the responsibility of a

⁷ Consulting engagements employ a professional accountant's technical skills, education, observations, experiences, and knowledge of the consulting process. The consulting process is an analytical process that typically involves some combination of activities relating to objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results and sometimes implementation and follow-up. Where a report is issued, it is generally in a narrative (or "long form") style. Generally the work performed is only for the use and benefit of the client. The nature and scope of work is determined by agreement between the professional accountant and the client. Any service that meets the definition of an assurance engagement is not a consulting engagement but an assurance engagement.

⁸ An engagement that includes professional opinions, views or wording from which a user may derive some assurance is not an assurance engagement under this Framework if:

- (a) Those opinions, views or wording are merely incidental to the overall engagement;
- (b) Pursuant to a written understanding with the intended users, the engagement is not intended to be an assurance engagement;
- (c) The engagement is not represented as an assurance engagement in the professional accountant's report; and
- (d) Any written report issued is restricted to, and will not be distributed beyond the intended users.

party other than the intended users⁹ or the practitioner, conforms in all material respects with identified criteria.

13. The responsible party and the intended users will often be from separate entities but need not be. A responsible party and the intended users may both be within the same entity. For example, where there is a two-tier board structure, the supervisory board may seek assurance about information provided by the management board of that entity. The relationship between the responsible party and the intended users needs to be viewed within the context of a specific engagement and may differ from more traditionally defined lines of responsibility. For example, an entity's senior management may engage a practitioner to perform an assurance engagement on a particular aspect of the entity's activities that is the immediate responsibility of a lower level of management but for which senior management is ultimately responsible.

Practitioner

14. The Code defines professional accountants as "those persons, whether they be in public practice (including a sole practitioner, partnership or corporate body), industry, commerce, the public sector or education who are members of an IFAC member body." The term "practitioner" as used in this Framework means a professional accountant in public practice. It is broader than the term "auditor" as used in ISAs, which relates only to practitioners performing audit or review engagements with respect to historical financial information.
15. Practitioners may be requested to perform assurance engagements on a wide range of subject matters. Some subject matters may require specialist skills and knowledge beyond those that individual practitioners ordinarily possess. In such cases, the practitioner is satisfied that those persons carrying out the engagement collectively possess the requisite skills and knowledge.

Responsible Party

16. The responsible party is the person or persons, either as individuals or as representatives of an entity, responsible for the subject matter. The responsible party may or may not be the party who engages the practitioner.

Intended Users

17. The intended users are the class of persons (or the individual) for whom the practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one.
18. The intended users may be identified in an agreement between the practitioner and the responsible party or those engaging the practitioner. In some circumstances the intended users are identified by law. Often the intended users are the addressee of the assurance report, but in some cases there are intended users other than the addressee.
19. Some intended users (e.g., bankers and regulators) may impose a requirement on, or may request the responsible party to arrange for, an assurance engagement to be performed on a particular subject matter. However, other intended users may have no direct involvement in defining the terms of an assurance engagement. When the engagement is designed to meet the needs of specific intended users or for a specific purpose, the practitioner considers stating in the assurance report that its use is restricted to those specific intended users or the specific purpose.

Subject Matter

20. The subject matter of an assurance engagement can take many forms, such as:
 - Information or data about, e.g., historical or prospective financial or other type of performance or conditions, or physical characteristics (e.g., financial statements, statistical information, non-financial performance indicators, capacity of a facility).

⁹ The responsible party can be one of the intended users, but not the only one.

- Systems and processes (e.g., internal controls, IT systems).
 - Behavior (e.g., corporate governance, compliance with regulation, human resource practices).
21. The subject matter may relate to a point in time or cover a period of time.
 22. The subject matter is to be identifiable, capable of consistent evaluation or measurement against identified, suitable criteria, and in a form that can be subjected to procedures for gathering evidence to support that evaluation or measurement.
 23. The characteristics of some subject matters make them more capable of:
 - (a) Precise evaluation or measurement against the identified criteria; or
 - (b) A higher degree of support by more persuasive or conclusive evidence (see paragraph 41 (a)).

These characteristics can include the degree to which the subject matter is: qualitative versus quantitative, objective versus subjective, and historical versus prospective. Such characteristics are particularly relevant to the intended users and therefore are described in the assurance report.

24. In some engagements, known as assertion-based engagements, the responsible party makes an explicit assertion that is available to the intended users. The assertion is the responsible party's declaration about the subject matter based on the identified criteria. When such an assertion is not available to the intended users (known as a direct reporting engagement), the practitioner's conclusion relates to the subject matter directly.

Suitable Criteria

25. Criteria are the benchmarks used to evaluate or measure the subject matter of an assurance engagement including, where relevant, benchmarks for presentation and disclosure of the subject matter. For example: in the preparation of financial statements, the criteria may be International Financial Reporting Standards or International Public Sector Accounting Standards; when reporting on internal control, the criteria may be an established internal control framework or individual control objectives specifically designed for the engagement; and when reporting on compliance, the criteria may be the applicable law, regulation or contract. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding.
26. Criteria need to be suitable to enable reasonably consistent evaluation or measurement of the subject matter within the context of professional judgment. Suitable criteria are context-sensitive, that is, relevant to the engagement circumstances, therefore, the same criteria will not always be selected for the same subject matter. For example, for the subject matter of customer satisfaction, one responsible party may select as a criterion the number of customer complaints resolved to the acknowledged satisfaction of the customer; while another responsible party may select a different criterion, such as the number of repeat purchases in the three months following the initial purchase.
27. The decision as to whether the criteria are suitable involves considering whether the subject matter is capable of reasonably consistent evaluation or measurement against those criteria. The evaluation or measurement of a subject matter on the basis of the practitioner's own expectations, judgments and individual experience would not constitute suitable criteria. The characteristics for assessing whether criteria are suitable are as follows:
 - (a) Relevance: relevant criteria contribute to conclusions that meet the objectives of the engagement, and assist decision-making by the intended users;
 - (b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement objectives are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure of the subject matter;

- (c) Reliability: reliable criteria result in reasonably consistent evaluation or measurement including, where relevant, presentation and disclosure of the subject matter, when used in similar circumstances by similarly qualified practitioners;
 - (d) Neutrality: neutral criteria are free from bias; and
 - (e) Understandability: understandable criteria are clear and comprehensive and are not subject to significantly different interpretation.
28. In assessing the suitability of criteria to a particular engagement, the practitioner considers whether the criteria reflect the above characteristics. The relative importance of each characteristic to a particular engagement is a matter of judgment. Criteria can be either established or specifically developed. Established criteria are those embodied in laws or regulations, or issued by recognized bodies of experts that follow due process. Specifically developed criteria are those identified for the purpose of the engagement and which are consistent with the engagement objective. Whether criteria are established or specifically developed affects the work that the practitioner carries out to assess suitability for a particular engagement.
29. Practitioners do not accept an assurance engagement when the criteria are not suitable. In such cases, however, it may be possible to:
- (a) Identify a component of the subject matter for which suitable criteria exist, and perform an assurance engagement in relation to that component as a subject matter in its own right. In such cases, care may need to be taken to prevent the assurance report in relation to the component from being mistaken for a report on the original subject matter in its entirety; or
 - (b) Perform an engagement that is not an assurance engagement, such as an agreed-upon procedures engagement or a consulting services engagement.
30. Identification of the criteria in the reporting of an assurance conclusion is important because it informs the intended users of the basis against which the subject matter has been evaluated or measured in forming that conclusion. Similarly, the criteria need to be available to the intended users. Criteria can be available to the intended users in one or more of the following ways:
- (a) Available publicly;
 - (b) Available to the intended users through inclusion in a clear manner in the presentation of the subject matter;
 - (c) Available to the intended users through inclusion in a clear manner in the assurance report;
 - (d) Generally understood by the intended users (e.g., the criterion for measuring time in hours and minutes is generally understood); or
 - (e) Available only to specific intended users (e.g., the terms of a contract, or criteria issued by an industry association that are available only to those in the industry).

When the identified criteria are available only to specific intended users, or are relevant only to a specific purpose, use of the assurance report is restricted to those specific intended users or that purpose.¹⁰

Evidence

31. An assurance engagement involves the practitioner planning and performing the engagement to obtain sufficient appropriate evidence about the subject matter's conformity with the identified criteria, and applying professional judgment in evaluating evidence in order to express a

¹⁰ While an assurance report may be restricted whenever it is intended only for specified intended users or for a specific purpose, the absence of a restriction regarding a particular reader or purpose, does not indicate that a duty of care is owed by the practitioner in relation to that reader or for that purpose.

conclusion. For both audit-level and review-level engagements, and for all subject matters, this involves a systematic engagement process requiring a base of specialized knowledge and skills, and the application of techniques for gathering and documenting evidence to support the conclusion. The practitioner considers materiality and assurance engagement risk (see paragraph 37) when planning and performing the engagement.

32. The concepts of sufficiency and appropriateness of evidence are interrelated, and include considering the reliability of evidence. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence, that is, its relevance and its reliability. The practitioner considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting a procedure for which there is no reasonable alternative. The practitioner uses professional judgment in determining the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report.
33. The reliability of evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. Generalizations about the reliability of various kinds of evidence can be made; however, such generalizations are subject to important exceptions. For example, evidence obtained from an independent external source may not be reliable if the source is not knowledgeable. While recognizing that exceptions may exist, the following generalizations about the reliability of evidence may be useful:
 - Evidence is more reliable when it is obtained from independent sources.
 - Evidence that is generated internally is more reliable when the related controls are effective.
 - Evidence obtained directly by the practitioner (e.g., observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (e.g., inquiry about the application of a control).
 - Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (e.g., a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of what was discussed).
 - Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.
34. An assurance engagement rarely involves the authentication of documentation, nor is the practitioner trained as or expected to be an expert in such authentication. However, the practitioner considers the reliability of the information to be used as evidence, e.g., whether the evidence is comprised of original documents, photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.
35. Evidence is more reliable when the practitioner obtains consistent evidence from different sources or of a different nature. In these circumstances, the practitioner may obtain more assurance than from items of evidence considered individually. For example, corroborating information obtained from a source independent of an entity may increase the assurance the practitioner obtains from a representation from the responsible party. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the practitioner determines what additional evidence gathering procedures are necessary to resolve the inconsistency.
36. In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance on a subject matter covering a period of time than on a subject matter at a point in time. In addition, conclusions provided on processes ordinarily are limited to the period covered by the engagement and do not extend to providing any conclusion about whether the process will continue to function in the specified manner in the future.

Assurance Engagement Risk

37. Assurance engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter does not conform, in all material respects, with the identified criteria.¹¹ In an audit-level engagement, the practitioner reduces assurance engagement risk to an acceptably low level, whereas in a review-level engagement, assurance engagement risk is reduced to a moderate level (see the Appendix for an outline of the differences between an audit-level engagement and a review-level engagement).
38. In general, assurance engagement risk can be represented by the following components, although not all of these components will necessarily be present or significant for all assurance engagements:
 - (a) The risk that the subject matter does not conform, in all material respects, with the identified criteria, which in turn consists of:
 - (i) Inherent risk: the susceptibility of the subject matter to material nonconformity with the identified criteria, assuming that there are no related controls; and
 - (ii) Control risk: the risk that a material nonconformity with the identified criteria that could occur will not be prevented, or detected and corrected on a timely basis by related internal controls. Some control risk will always exist because of the inherent limitations of the design and operation of internal control; and
 - (b) Detection risk: the risk that the practitioner will not detect a material nonconformity with the identified criteria.

The degree to which the practitioner considers each of these components is affected by the engagement circumstances, in particular by the nature of the subject matter and whether an audit-level or a review-level engagement is being performed.

Nature, Timing and Extent of Evidence Gathering Procedures

39. The exact nature, timing and extent of evidence gathering procedures the practitioner undertakes will vary from one engagement to the next. In theory, it may be possible to have infinite variations in evidence gathering procedures. In practice, however, it ordinarily is not possible to communicate fine gradations in the nature, timing and extent of evidence gathering procedures in a clear and unambiguous manner. Therefore, this Framework establishes that in any assurance engagement, the practitioner reports in the form appropriate to one of only two distinct levels of evidence gathering procedures: an audit-level or a review-level.¹²
40. Sufficient appropriate evidence to reduce assurance engagement risk to a moderate level is obtained through evidence gathering procedures limited (compared to an audit-level engagement) to, e.g., inquiry and analytical procedures, based on an understanding of the subject matter and other engagement circumstances and, in certain cases only, additional evidence gathering procedures. In an audit-level engagement, the level of evidence gathering procedures is determined by what is reasonable in the circumstances to achieve the objective of the engagement. While a review-level engagement involves the application of assurance skills and techniques and the gathering of evidence, the level of evidence gathering procedures is that necessary to achieve the objective of the engagement (i.e., to reduce assurance engagement risk to a moderate level) and ordinarily does not involve obtaining evidence about the design of internal control and determining whether it has been implemented, or obtaining corroborating evidence through tests of records and tests of responses to inquiries, using techniques such as

¹¹ In addition to assurance engagement risk, the practitioner is exposed to risks through loss from litigation, adverse publicity, or other events arising in connection with a subject matter reported on. The latter risks are not part of assurance engagement risk.

¹² Where the subject matter is made up of a number of components, separate conclusions may be provided on each component. While not all such conclusions need to relate to the same level of evidence gathering procedures, each conclusion clearly relates to either an audit-level or a review-level.

inspection, observation, confirmation, re-calculation and re-performance, which are procedures ordinarily performed during an audit-level engagement. However, if in a review-level engagement a matter comes to the attention of the practitioner that may indicate the subject matter does not conform in all material respects with the identified criteria, the practitioner pursues the matter and may need to obtain corroborating evidence.

Quantity and Quality of Evidence Available

41. Ordinarily, the evidence available to support the evaluation or measurement of the subject matter against the identified criteria will be persuasive rather than conclusive. The quantity or quality of evidence available will be affected by:
 - (a) The characteristics of the subject matter, e.g., when the subject matter is future oriented, less objective evidence might be expected to exist than when the subject matter is historical (see paragraph 23(b)); and
 - (b) The particular circumstances of the engagement other than the characteristics of the subject matter, when evidence that could reasonably be expected to exist is not available to the practitioner for reasons such as the timing of the practitioner’s appointment, an entity’s document retention policy or a restriction imposed by the responsible party.
42. Limitations on the quantity or quality of evidence available because of the particular circumstances of the engagement other than the characteristics of the subject matter will, in some cases, prevent the practitioner from being able to express an unqualified audit-level conclusion. If the engagement:
 - (a) Has not been accepted as an audit-level engagement, the practitioner may be able to accept the engagement as a review-level engagement and express an unqualified review-level conclusion. Before accepting such an engagement, the practitioner considers whether it is possible and appropriate to provide a review-level conclusion; or
 - (b) Has been accepted as an audit-level engagement and the practitioner is requested to change it to a review-level engagement or a non-assurance engagement, the practitioner considers the appropriateness of doing so, and does not agree to a change where there is no reasonable justification for it. A change in circumstances that affects the requirements of the intended users, or a misunderstanding concerning the nature of the engagement, is ordinarily considered a reasonable justification for requesting a change in the engagement.
43. It is not appropriate to provide an unqualified assurance conclusion, in relation to either an audit-level engagement or a review-level engagement, when:
 - (a) Circumstances prevent the practitioner from accessing evidence that the practitioner determines is required to reduce assurance engagement risk to the appropriate level; or
 - (b) The responsible party imposes a restriction that prevents the practitioner from accessing evidence that may be required to reduce assurance engagement risk to the appropriate level.

In such cases the practitioner expresses a reservation or denial of conclusion, or withdraws from the engagement.

Assurance Report

44. The practitioner provides a written report containing a conclusion that conveys the assurance obtained as to whether the subject matter conforms in all material respects with the identified criteria.
45. The assurance report may be in “long-form” and describe in detail the objective(s) of the engagement, the criteria being used, specific findings and, in some cases, recommendations, as well as the practitioner’s conclusion and the other basic elements identified in appropriate ISAs and ISAEs. “Short-form” reports ordinarily only include the basic elements identified in

appropriate ISAs and ISAEs. In addition to the assurance report, the practitioner communicates with those charged with governance when it is appropriate to do so.

46. In an audit-level engagement, the conclusion is expressed in the positive form, e.g., “in our opinion *subject matter* conforms in all material respects with *criteria*.” This form of expression conveys “reasonable assurance,” which indicates that, given the level of the practitioner’s evidence gathering procedures and the characteristics of the subject matter described in the assurance report, the practitioner has obtained sufficient appropriate evidence to reduce assurance engagement risk to an acceptably low level. The level of the practitioner’s evidence gathering procedures and the characteristics of the subject matter affect the assurance the practitioner obtains because they affect the quantity and quality of evidence upon which the practitioner’s conclusion is based.
47. “Reasonable assurance” obtained in an audit-level engagement is less than absolute assurance because reducing assurance engagement risk to zero ordinarily is not attainable as a result of such factors as the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to the practitioner is persuasive rather than conclusive, and the use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
48. In a review-level engagement, the conclusion is expressed in the negative form, e.g., “nothing has come to our attention that causes us to believe that *subject matter* does not conform in all material respects with *criteria*.” This form of expression conveys “limited assurance,” which indicates that, given the level of the practitioner’s evidence gathering procedures and the characteristics of the subject matter described in the assurance report, the practitioner has obtained sufficient appropriate evidence to reduce assurance engagement risk to a moderate level. The level of the practitioner’s evidence gathering procedures and the characteristics of the subject matter affect the assurance the practitioner obtains because they affect the quantity and quality of evidence upon which the practitioner’s conclusion is based.
49. A practitioner is associated with a subject matter when the practitioner attaches a report to that subject matter or consents to the use of the practitioner’s name in a professional connection with that subject matter. If the practitioner is not associated in this manner, third parties can assume no responsibility of the practitioner. If the practitioner learns that a party is inappropriately using the practitioner’s name in association with a subject matter, the practitioner requires the party to cease doing so and consider what further steps, if any, need to be taken, such as informing any known third party users of the inappropriate use of the practitioner’s name. The practitioner may also believe it necessary to take other action, e.g., to seek legal advice.

Effective Date

50. This ISAE is effective for assurance engagements where the assurance report is dated on or after [*date to be inserted*]. Earlier application is permissible.

Public Sector Perspective

1. *This Framework is applicable to all professional accountants in the public sector who are independent of the entity for which they perform assurance engagements. Where professional accountants in the public sector are not independent of the entity for which they perform an assurance engagement, this Framework should be applied with particular reference to the guidance in footnote 1.*

Differences Between Audit-level Engagements and Review-level Engagements

This Appendix outlines the differences between an audit-level engagement and a review-level engagement discussed in the Framework (see in particular paragraphs 37, 40 and 46-48).

Type of engagement	Level of assurance engagement risk	Evidence gathering procedures¹	Conclusion in the assurance report	Assurance obtained and conveyed
Audit-level engagement (see in particular paragraphs 37, 40, 46 and 47)	Acceptably low level	Sufficient appropriate evidence is obtained through obtaining an understanding of the engagement circumstances; assessing the risks of the subject matter not conforming materially with the identified criteria, responding to assessed risks, performing further procedures and evaluating the evidence obtained, using procedures such as inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry. The level of procedures is determined by what is reasonable in the circumstances to achieve the objective of the engagement.	Positive form of expression	“Reasonable assurance”
Review-level engagement (see in particular paragraphs 37, 40 and 48)	Moderate level	Sufficient appropriate evidence is obtained through procedures that are limited compared to an audit-level engagement, and often comprise only inquiry and analytical procedures based on an understanding of the subject matter and other engagement circumstances unless a matter comes to the attention of the practitioner that may indicate the subject matter does not conform in all material respects with the identified criteria. The level of evidence gathering procedures is that necessary to achieve the objective of the engagement (i.e., to reduce assurance engagement risk to a moderate level).	Negative form of expression	“Limited assurance”

¹ A detailed discussion of evidence gathering requirements is only possible within ISAEs for specific subject matters.

INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS 2000
ASSURANCE ENGAGEMENTS ON SUBJECT MATTERS OTHER THAN
HISTORICAL FINANCIAL INFORMATION
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This International Standard on Assurance Engagements (ISAE) contains basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material for assurance engagements other than audits and reviews of historical financial information performed by professional accountants in public practice where no specific ISAE(s) exist. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provides guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the ISAE, including explanatory and other material contained in the ISAE, not just that text which is black lettered.

In exceptional circumstances, a professional accountant may judge it necessary to depart from this ISAE in order to more effectively achieve the objective of an engagement. When such a situation arises, the professional accountant should be prepared to justify the departure.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an ISAE. Where no PSP is added, the ISAE is applicable in all material respects to the public sector.

Introduction

1. The purpose of this International Standard on Assurance Engagements (ISAE) is to establish basic principles and essential procedures for, and provide guidance to, professional accountants in public practice (hereinafter referred to as “practitioners”) for the performance of assurance engagements on subject matters other than historical financial information, which are covered by International Standards on Auditing (ISAs), where no specific ISAE(s) exists. This ISAE is to be read in the context of the “International Framework for Assurance Engagements” (the Framework), which defines and describes the elements of an assurance engagement, and identifies those engagements to which ISAEs apply.
2. This ISAE uses the terms “audit-level engagement” and “review-level engagement” to distinguish between these two types of assurance engagement. These terms are used for ease of reference only, and it is recognized that various other names may be used for each, including “audit” and “examination,” and “review” and “limited review.”

Ethical Requirements

3. **The practitioner should comply with the requirements of Parts A and B of the IFAC Code of Ethics for Professional Accountants (the Code).**¹
4. The members of the assurance team and the firm are to be independent of the assurance client² during the period of the assurance engagement. The Code provides a framework of principles that members of assurance teams, firms and network firms use to identify threats to independence, evaluate the significance of those threats and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level, such that independence of mind and independence in appearance are not compromised.

Quality Control

5. **The practitioner should implement those quality control procedures that are, in the context of the policies and procedures of the firm, appropriate to the individual engagement.** Elements of quality control that are related to an individual engagement include leadership and responsibilities, acceptance and continuance of client relationships and specific engagements, independence, assignment of engagement teams, and engagement performance.

Engagement Acceptance

6. **The practitioner should accept an assurance engagement only if the subject matter is the responsibility of a party other than the intended users or the practitioner.** As indicated in paragraph 17 of the Framework, the responsible party can be one of the intended users, but not the only one. Acknowledgement by the responsible party provides evidence that the appropriate relationship exists and also establishes a basis for a common understanding of the responsibility of each party. Obtaining this acknowledgement in writing provides the most appropriate form of documentation of the responsible party’s understanding; but, recognizing

¹ The Code referred to here is the version revised and issued in November 2001. Section 8 “Independence for Assurance Engagements” of that version is applicable to assurance engagements when the assurance report is dated on or after December 31, 2004. Earlier application is encouraged.

² “Assurance client” is defined in the Code as “an entity in respect of which a firm conducts an assurance engagement.”

If this ISAE is being applied by a professional accountant not in public practice; and:

- (a) The Framework or ISAEs are referred to in the professional accountant’s report; and
- (b) The professional accountant or other members of the assurance team and, when applicable, the firm, network firm or equivalent (e.g., the professional accountant’s employer), are not independent of the entity in respect of which the assurance engagement is being performed,

the lack of independence and the nature of the relationship(s) with the assurance client are prominently disclosed in the professional accountant’s report, which does not include the word “independent” in its title, and the purpose and users of the report are restricted.

the broad range of assurance engagements, this is not always practical. There may be other sources of evidence that indicate responsibility for the subject matter, e.g., it may be clearly established in legislation or by contract.

7. **The practitioner should accept an assurance engagement only if, on the basis of a preliminary knowledge of the engagement circumstances, nothing comes to the attention of the practitioner to indicate that the requirements of this ISAE will not be satisfied.** Prior to accepting the engagement, the practitioner considers the matters in paragraph 7 of the Framework.
8. Practitioners may be requested to perform assurance engagements on a wide range of subject matters. Some subject matters may require specialist skills and knowledge beyond those that individual practitioners ordinarily possess. **The practitioner should accept an assurance engagement only if the practitioner is satisfied that those persons who are to perform the engagement collectively possess the necessary professional competencies.**

Agreeing the Terms of the Engagement

9. **The practitioner should agree on the terms of the engagement with the party who engages the practitioner.** As a means of reducing uncertainty, the agreed terms are recorded in an engagement letter or other suitable form of contract. In some cases the engagement objective and subject matter are prescribed by a party or parties other than the one that appoints the practitioner, e.g., by legislation. Where the assurance engagement mandate is legislated, the existence of the legislative mandate may satisfy the requirement to agree the terms of the engagement.
10. **A practitioner who, before the completion of an assurance engagement, is requested to change the engagement to a non-assurance engagement or from an audit-level engagement to a review-level engagement should consider the appropriateness of doing so, and should not agree to a change where there is no reasonable justification for the change.** A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement ordinarily is considered a reasonable basis for requesting a change in the engagement.

Planning and Performing the Engagement

11. **The practitioner should plan and perform the engagement in an effective manner to meet the objective of the engagement.** Planning consists of developing a general strategy and a detailed approach to the assurance engagement, and assists the proper assignment and supervision of work. The following are examples of the main matters to be considered:
 - The engagement objective.
 - The characteristics of the subject matter and the criteria to be used.
 - The engagement process and possible sources of evidence.
 - The practitioner's understanding of the responsible party and its environment, and consideration of materiality and assurance engagement risk.
 - Personnel and expertise requirements, including the nature and extent of the involvement of experts.

Planning and supervision are continuous throughout the engagement, and plans may need to be changed as the engagement progresses.

12. **The practitioner should plan and perform an engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter not to conform materially with the identified criteria.** An attitude of professional skepticism means the practitioner makes a critical assessment, with a questioning mind, of the validity of information obtained as evidence and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party. For example, an attitude of professional skepticism is necessary throughout the engagement process for the

practitioner to reduce the risk of overlooking suspicious circumstances, of over generalizing when drawing conclusions from observations, and of using faulty assumptions in determining the nature, timing and extent of evidence gathering procedures and evaluating the results thereof.

13. **The practitioner should obtain an understanding of the engagement circumstances that is sufficient to assess the risks of the subject matter not conforming materially with the identified criteria, whether due to fraud or error,³ and sufficient to design and perform further evidence gathering procedures.**
14. Obtaining an understanding of the engagement circumstances is an essential part of planning and performing an assurance engagement. In particular, that understanding establishes a frame of reference within which the practitioner exercises professional judgment about assessing risks of the subject matter not conforming materially with the identified criteria and responding to those risks throughout the engagement, e.g., when:
 - Assessing the suitability of the criteria.
 - Identifying areas where special consideration may be necessary, e.g., factors indicative of fraud, the need for special skills or the work of an expert.
 - Establishing materiality and evaluating whether the judgment about materiality remains appropriate as the engagement progresses.
 - Developing expectations for use when performing analytical procedures.
 - Designing and performing further evidence gathering procedures to reduce assurance engagement risk to an appropriate level.
 - Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.
15. The practitioner uses professional judgment to determine the extent of the understanding required of the engagement circumstances, which ordinarily is less for a review-level engagement than for an audit-level engagement. The depth of understanding that is required by the practitioner in performing the engagement ordinarily is less than that possessed by the responsible party.

Assessing the Suitability of Criteria

16. **The practitioner should assess the suitability of the criteria to evaluate or measure the subject matter.** Suitable criteria have the characteristics listed in paragraph 27 of the Framework. As indicated in paragraph 7 of the Framework, a practitioner does not accept an assurance engagement unless the practitioner's preliminary knowledge of the engagement circumstances indicates that the criteria to be used are suitable. However, if after accepting the engagement, the practitioner concludes that the criteria are not suitable, the practitioner expresses a reservation or denial of conclusion, or withdraws from the engagement
17. As indicated in paragraph 28 of the Framework, criteria can be either established or specifically developed. The practitioner ordinarily concludes that established criteria are suitable when they are consistent with the engagement objective. When established criteria exist for a subject matter but specific identified users have agreed to other criteria for their specific purposes, the assurance report states that it is only for the use of those specific identified users and for the purposes they have specified. To illustrate, International Financial Reporting Standards are established criteria for the preparation and presentation of financial statements in the private sector, but specific users may decide to specify an alternative basis of accounting that meets their specific information needs in relation to a proposed acquisition.

³ Error differs from fraud in that fraud refers to an intentional act by one or more individuals.

18. For some subject matters it is likely that no established criteria exist, and therefore that the criteria will be specifically developed. The practitioner is satisfied that specifically developed criteria do not result in an assurance report that is misleading to the intended users. The practitioner attempts to obtain from the intended users or those engaging the practitioner, acknowledgement that specifically developed criteria are sufficient for the intended users' purposes. When such acknowledgement cannot be obtained, the practitioner considers the effect of this on the work required to be satisfied as to the suitability of the identified criteria and on the information provided about the criteria in the assurance report.

Materiality and Assurance Engagement Risk

19. **The practitioner should consider materiality and assurance engagement risk when planning and performing an assurance engagement.**
20. The practitioner considers materiality when determining the nature, timing and extent of evidence gathering procedures and when evaluating whether the subject matter conforms with the identified criteria. When considering materiality, the practitioner needs to understand and assess what factors might influence the decisions of the intended users. For example, when the subject matter is in the form of information and the identified criteria allow for variations in the presentation of that information, the auditor considers how the presentation adopted might influence the decisions of the intended users. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the subject matter and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the practitioner's judgment.
21. **The practitioner should reduce assurance engagement risk to:**
 - (a) **An acceptably low level in the case of an audit-level engagement; or**
 - (b) **A moderate level in the case of a review-level engagement.**
22. As indicated in paragraph 38 of the Framework, in general, assurance engagement risk comprises inherent risk, control risk and detection risk. The practitioner uses professional judgment when considering the relevance of each of these components to the engagement circumstances, in particular the nature of the subject matter and whether an audit-level or a review-level engagement is being performed.

Using the Work of an Expert

23. **When the work of an expert is used in the collection and evaluation of evidence, the practitioner and the expert should, on a combined basis, possess adequate skill and knowledge regarding the subject matter and the criteria for the practitioner to determine that sufficient appropriate evidence has been obtained.**
24. The subject matter and related criteria of some assurance engagements may be composed of a number of elements requiring specialized knowledge and skills in the collection and evaluation of evidence. In these situations, the practitioner may decide to use the work of persons from other professional disciplines, referred to as experts, who have the required skills and knowledge of the relevant aspects of the subject matter or criteria. This ISAE does not provide guidance with respect to using the work of an expert for engagements where there is joint responsibility and reporting by a practitioner and one or more experts.
25. Due care is a required professional quality for all individuals, including experts, involved in an assurance engagement. Persons involved in assurance engagements will have different responsibilities assigned to them. The extent of proficiency required in performing those engagements will vary with the nature of their responsibilities. While experts do not require the same proficiency as the practitioner in performing all the components of an assurance engagement, the practitioner determines that the experts have a sufficient understanding of this ISAE to enable them to relate the work assigned to them to the engagement objective.

26. The exercise of due care requires that the work of all persons involved in an assurance engagement comply with this ISAE, including the work of any experts who are not professional accountants. The quality control procedures adopted by the practitioner address the responsibility of each person performing the assurance engagement to ensure compliance with this ISAE in the context of their responsibilities in the engagement process.
27. **When an expert is involved, the practitioner should have a level of involvement in the engagement and an understanding of the aspects of the work for which the expert has been used, sufficient to enable the practitioner to accept responsibility for expressing a conclusion on the subject matter.** The practitioner considers the extent to which it is reasonable to use the work of an expert in forming a conclusion on the subject matter.
28. The practitioner is not expected to possess the same specialized knowledge and skills as the expert. However, the practitioner needs to have sufficient skill and knowledge to:
- Define the objectives of the work assigned to the expert and how this work relates to the objective of the engagement;
 - Consider the reasonableness of the assumptions, methods and source data used by the expert; and
 - Consider the reasonableness of the findings of the expert in relation to the objective of the engagement and the conclusion on the subject matter.
29. **When an expert is involved, the practitioner should obtain sufficient appropriate evidence that the work of the expert is adequate for the purposes of the assurance engagement.** The practitioner evaluates the sufficiency and appropriateness of the evidence provided by the expert by evaluating:
- The professional competence, experience and objectivity of the expert;
 - The reasonableness of the assumptions, methods and source data used by the expert; and
 - The reasonableness and significance of the expert's findings in relation to the objective of the engagement and the conclusion on the subject matter.

Obtaining Evidence

30. **The practitioner should obtain sufficient appropriate evidence on which to base the conclusion.**
31. Sufficient appropriate evidence to reduce assurance engagement risk to a moderate level is obtained through evidence gathering procedures limited (compared to an audit-level engagement) to, e.g., inquiry and analytical procedures, based on an understanding of the subject matter and other engagement circumstances and, in certain cases only, additional evidence gathering procedures. In an audit-level engagement, the level of evidence gathering procedures is determined by what is reasonable in the circumstances to achieve the objective of the engagement. While a review-level engagement involves the application of assurance skills and techniques and the gathering of evidence, the level of evidence gathering procedures is that necessary to achieve the objective of the engagement (i.e., to reduce assurance engagement risk to a moderate level) and ordinarily does not involve obtaining evidence about the design of internal control and determining whether it has been implemented, or obtaining corroborating evidence through tests of records and tests of responses to inquiries, using techniques such as inspection, observation, confirmation, re-calculation and re-performance, which are procedures ordinarily performed during an audit-level engagement. However, if in a review-level engagement a matter comes to the attention of the practitioner that may indicate the subject matter does not conform in all material respects with the identified criteria, the practitioner pursues the matter and may need to obtain corroborating evidence.

Representations by the Responsible Party

32. **The practitioner should obtain appropriate representations from the responsible party.** The possibility of misunderstandings between the practitioner and the responsible party is reduced when oral representations are confirmed by the responsible party in writing. In a direct reporting engagement, the practitioner also requests from the responsible party a written representation that evaluates or measures the subject matter against the identified criteria. If the responsible party will not provide a written representation, this may result in:
- (a) A reservation or denial of conclusion on the basis of a limitation on the scope of the engagement; and
 - (b) The practitioner including in the assurance report a restriction on its use.
33. During the course of an assurance engagement, the responsible party may make representations to the practitioner, either unsolicited or in response to specific inquiries. When such representations relate to matters that are material to the subject matter, the practitioner:
- (a) Evaluates whether the representations appear reasonable and consistent with other evidence obtained, including other representations;
 - (b) Considers whether the individuals making the representations can be expected to be well informed on the particular matters; and
 - (c) In the case of an audit-level engagement, seeks corroborative evidence. The practitioner may also decide to seek corroborative evidence in the case of a review-level engagement.
34. Representations by the responsible party cannot be a substitute for other evidence that the practitioner could reasonably expect to be available. If the practitioner is unable to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the subject matter and such evidence is expected to be available, this constitutes a limitation in the scope of the engagement, even if a representation from the responsible party has been received on the matter.

Considering Subsequent Events

35. **The practitioner should consider the effect on the subject matter and on the assurance report of subsequent events up to the date of completion of the engagement. When, prior to the date of completion of the engagement, the practitioner becomes aware of events that materially affect the subject matter or the practitioner's conclusion, the practitioner should consider whether the subject matter reflects those events properly and whether those events are addressed properly in the assurance report.** The extent of any consideration of subsequent events depends on the potential for such events to affect the subject matter and to affect the appropriateness of the practitioner's conclusions. For some assurance engagements the nature of the subject matter may be such that consideration of subsequent events is not relevant to the conclusion. For example, when the engagement is to provide a conclusion about the accuracy of a statistical return at a point in time, events occurring after that point in time, but before the date of completion of the engagement, may not affect the conclusion.

Documentation

36. **The practitioner should document matters that are significant in providing evidence to support the assurance report, and in providing evidence that the engagement was performed in accordance with ISAEs.**
37. Documentation includes a record of the practitioner's reasoning on all significant matters that require the exercise of judgment, together with the practitioner's conclusion thereon. In areas involving difficult questions of principle or judgment, the documentation will include the relevant facts that were known by the practitioner at the time the conclusion was reached.

38. The extent of documentation is a matter of professional judgment since it is neither necessary nor practical to document every matter the practitioner considers. In assessing the extent of documentation to be prepared and retained, it may be useful for the practitioner to consider what is necessary to provide another practitioner who has no previous experience with the engagement, with an understanding of the work performed and the basis of the principal decisions taken, but not the detailed aspects of the engagement. That other practitioner may only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the practitioner who prepared the documentation.

Preparing the Assurance Report

39. **The practitioner should evaluate the sufficiency and appropriateness of the evidence obtained as the basis for the conclusion expressed in the assurance report.** In forming the conclusion, the practitioner considers all relevant evidence, regardless of whether it appears to corroborate or to contradict the subject matter's conformity with the identified criteria, including, where relevant, criteria related to presentation and disclosure.
40. **The assurance report should be in writing and should contain a clear expression of the practitioner's conclusion about the subject matter.**
41. Oral and other forms of expressing conclusions are open to misunderstanding without the support of a written assurance report. For this reason, the practitioner does not report orally or by use of symbols without also providing a definitive written assurance report that is readily available whenever the oral report is provided or the symbol is used, e.g., a symbol could be hyperlinked to a written assurance report on the Internet.
42. This ISAE does not require a standardized format for reporting on all assurance engagements, but rather identifies the basic elements required to be included in the assurance report. Assurance reports are tailored to the specific engagement circumstances. The practitioner chooses a narrative (or "long form") style of reporting or a standardized (or "short form") style as appropriate to facilitate effective communication to the intended users. The practitioner may use headings, paragraph numbers, typographical devices (e.g., the bolding of text) and other mechanisms to enhance the clarity and readability of the assurance report.

Assurance Report Content

43. **The assurance report should include the following basic elements:**
- (a) **A title that clearly indicates the report is an independent assurance report:**⁴ an appropriate title helps to identify the nature of the assurance report, and to distinguish the assurance report from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practitioner.
 - (b) **An addressee:** an addressee identifies the party or parties to whom the assurance report is directed. Often the intended users are the addressee of the assurance report but in some cases there are intended users other than the addressee.
 - (c) **A description of the subject matter:** the description includes, when relevant:
 - (i) An identification and explanation of those characteristics of the subject matter of which the intended users should be aware; and

⁴ If this ISAE is being applied by a professional accountant not in public practice; and:

- (a) The Framework or ISAEs are referred to in the professional accountant's report; and
- (b) The professional accountant or other members of the assurance team and, when applicable, the firm, network firm or equivalent (e.g., the professional accountant's employer), are not independent of the entity in respect of which the assurance engagement is being performed,

the lack of independence and the nature of the relationship(s) with the assurance client are prominently disclosed in the professional accountant's report, which does not include the word "independent" in its title, and the purpose and users of the report are restricted.

(ii) The point in time or period of time to which the subject matter relates.

In an assertion-based engagement, the responsible party's assertion on the subject matter is appended to the assurance report, reproduced in the assurance report or referenced therein to a source that is available to the intended users.

- (d) **When the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose:** whenever the assurance report is intended only for specific intended users or a specific purpose, the practitioner considers stating this fact in the assurance report.⁵ While the practitioner cannot control the distribution of the assurance report, this provides a caution to readers of the party or parties to whom the assurance report is restricted or the purpose to which it is restricted.
- (e) **A statement to identify the responsible party and to describe the responsible party's and the practitioner's responsibilities:** this informs the intended users that the responsible party is responsible for the subject matter and that the practitioner's role is to express a conclusion about the subject matter.
- (f) **Identification of the fact that the engagement was performed in accordance with ISAEs.**
- (g) **A summary of the work undertaken:** the summary will help the intended users understand the nature of the assurance conveyed by the assurance report. The summary of the work undertaken in a financial statements audit as required by ISA 700 "The Auditor's Report on Financial Statements" can be used as a guide to the type of summary that may be appropriate, although in non-standard types of assurance engagement it may be appropriate to offer more detail of the work undertaken. In review-level engagement reports, the description of the engagement process includes a statement to the effect that the evidence gathering procedures are comprised primarily of inquiries and analytical procedures, and that therefore less assurance is obtained than would be the case had an audit-level engagement been performed.
- (h) **Identification of the criteria:** the assurance report identifies the criteria against which the subject matter was evaluated or measured so the intended users can understand the basis for the practitioner's conclusion. The criteria may either be included in the assurance report or simply be referred to if they are set out in an assertion prepared by the responsible party or available from a readily accessible source. Disclosure of the source of the criteria, and whether or not the criteria are established criteria in the context of the engagement objective and the nature of the subject matter (and if they are not generally accepted, a description of why they are considered suitable) is important in understanding the conclusions expressed.
- (i) **The practitioner's conclusion:** where the subject matter is made up of a number of components, separate conclusions may be provided on each component. While not all such conclusions need to relate to the same level of evidence gathering procedures, each conclusion clearly relates to either the audit-level or the review-level.

Where appropriate, the conclusion should inform the intended users of the context in which the practitioner's conclusion is to be read. For example, "this conclusion has been formed on the basis of, and is subject to the inherent limitations outlined elsewhere in this independent assurance report." This would be appropriate, e.g., when the report includes an explanation of particular characteristics of the subject matter of which the intended users should be aware.

⁵ While an assurance report may be restricted whenever it is intended only for specified intended users or for a specific purpose, the absence of a restriction regarding a particular reader or purpose does not indicate that a duty of care is owed by the practitioner in relation to that reader or for that purpose.

In the case of an audit-level engagement, the conclusion should be expressed in the positive form. For example, “in our opinion *subject matter* conforms in all material respects with *criteria*” or “the responsible party’s assertion concerning *subject matter*’s conformity with *criteria* is fairly stated.” **The positive form of expressing the conclusion should be used only when an audit-level engagement has been performed.**

In the case of a review-level engagement, the conclusion should be expressed in the negative form. For example, “nothing has come to our attention that causes us to believe that *subject matter* does not conform in all material respects with *criteria*” or “nothing has come to our attention that causes us to believe the responsible party’s assertion concerning *subject matter*’s conformity with *criteria* is not fairly stated.”

Where the practitioner expresses a reservation or denial of conclusion, the assurance report should contain a clear description of all the reasons.

- (j) **The assurance report date:** the assurance report is dated as of the date of completion of the engagement. This informs the intended users that the practitioner has considered the effect on the subject matter and on the assurance report of events of which the practitioner became aware and that occurred up to that date.
 - (k) **The name of the firm or the practitioner, and a specific location, which ordinarily is the city where the practitioner maintains the office that has responsibility for the engagement:** this informs the intended users of the individual or firm assuming responsibility for the engagement.
44. The practitioner may expand the assurance report to include other information and explanations not intended as a reservation. Examples include findings relating to particular aspects of the engagement and recommendations of the practitioner. When considering whether to include any such information, the practitioner assesses the significance of that information in the context of the objective of the engagement and the needs of the intended users. Additional information is worded in such a manner so as not to affect the conclusion of the practitioner.

Reservation or Denial of Conclusion

45. **The conclusion should clearly express circumstances where:**
- (a) **The practitioner is of the view that:**
 - (i) **Either one, some or all aspects of the subject matter do not conform with the identified criteria;**
 - (ii) **In the case of an assertion-based engagement in which the practitioner’s conclusion relates to the assertion rather than the subject matter directly, the responsible party’s assertion concerning the subject matter’s conformity with the identified criteria is not fairly stated; or**
 - (b) **The practitioner is unable to obtain sufficient appropriate evidence to evaluate one or more aspects of the subject matter’s conformity with the identified criteria.**
46. Where the practitioner expresses a reservation about the subject matter, the nature and expression of that reservation is determined by the materiality of the matter giving rise to the reservation, e.g., whether it relates to some or all aspects of the subject matter not conforming with the identified criteria (disagreement), or the inability of the practitioner to obtain sufficient appropriate evidence on some or all aspects of the subject matter (limitation of scope). When the practitioner expresses a reservation of conclusion or a denial of conclusion, the assurance report discloses all significant facts and reasons relating to the reservation or denial.
47. In an assertion-based engagement, if the practitioner’s conclusion relates to the assertion rather than the subject matter directly, and the responsible party’s assertion has identified and properly described that the subject matter does not conform, in all material respects, with the identified criteria, this would not be a reason for the practitioner to express a reservation of

conclusion. The practitioner does however emphasize the matter by specifically referring to that fact in the assurance report.

Communicating Matters of Governance Interest

48. **The practitioner should communicate relevant matters of governance interest arising from the assurance engagement with those charged with governance.**
49. For the purposes of this ISAE, “governance” is the term used to describe the role of persons entrusted with the supervision, control and direction of an entity.⁶ Those charged with governance ordinarily are accountable for ensuring that an entity achieves its objectives and for reporting to interested parties.
50. For the purpose of this ISAE, “relevant matters of governance interest” are those that arise from the assurance engagement and, in the opinion of the practitioner, are both important and relevant to those charged with governance in overseeing the subject matter. Relevant matters of governance interest include only those matters that have come to the attention of the practitioner as a result of performing the assurance engagement. The practitioner is not required, in the absence of a specific requirement in the terms of the engagement, to design procedures for the specific purpose of identifying matters of governance interest.

Effective Date

51. This ISAE is effective for assurance engagements where the assurance report is dated on or after *[date to be inserted]*. Earlier application is permissible.

Public Sector Perspective

1. *This ISAE is applicable to all professional accountants in the public sector who are independent of the entity for which they perform assurance engagements. Where professional accountants in the public sector are not independent of the entity for which they perform an assurance engagement, this ISAE should be applied with particular reference to the guidance in footnotes 2 and 4.*

⁶ Principles of corporate governance have been developed by many countries as a point of reference for the establishment of good corporate behavior. Such principles generally focus on publicly traded companies; however, they may also serve to improve governance in other forms of entities. There is no single model of good corporate governance. Board structures and practices vary from country to country.