



Promoting Professionalism in Accountancy

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

GUIDELINES ON CONDUCTING ASSURANCE ENGAGEMENTS

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FORWARD

Organisations in all sectors are increasingly being tasked by their key stakeholders, including investors, analysts and the public, to provide reliable and accurate information to enable rational decision-making regarding investment, regulation, contractual relationships and other matters.

An important role therefore exists for practising accountants to provide independent assurance of information prepared by one party for the use of others. The Institute of Certified Public Accountants of Uganda (ICPAU) has a key role to play in establishing sound practices in this area and by providing practical guidance on how to conduct assurance engagements.

Assurance engagements are guided by different standards and require peculiar execution requirements. The Guidelines explore what is meant by assurance, assurance engagements and how assurance engagement can be executed in compliance with applicable standards. The Guidelines detail the key aspects/procedures for consideration when executing an assurance engagement in compliance with the applicable standards.

The Guidelines have been prepared as a guide to practicing accountants and other individuals engaged in execution of assurance engagements. We are confident that in these Guidelines, we are dealing with a topic that is relevant to many people in many organizations of different types in all sectors and that there is sufficient consensus on issues and approaches emerging.

We know that future editions of these Guidelines may well be subject to revisions as the practice continues to evolve. That, we believe, will be a sign of good and healthy progress. We believe that these Guidelines will help practicing accountants involved in assurance engagements to manage their assurance roles and to discharge their assurance responsibilities more effectively.

CPA Derick Nkajja
Secretary/CEO

DISCLAIMER

These Guidelines are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in International Standards on Assurance Engagements (IASEs). The Guidelines are not intended to be comprehensive or to deal with all situations that might be encountered, i.e. they are supplementary to and not a substitute for the International Standards on Assurance Engagements and the relevant laws and regulations, which should be regarded as the primary source of guidance. Each practising accountant is encouraged to apply professional judgment in guidance provided herein after. Whereas every care has been taken in the preparation of these Guidelines, the ICPAU disclaims any responsibility or liability that may occur, directly or indirectly, as a consequence of the use and application of the Guidelines.

ABOUT ICPAU

The Institute of Certified Public Accountants of Uganda (ICPAU) was established in 1992 by the Accountants Act, Cap 266. This has now been repealed and replaced by the Accountants Act, 2013.

The functions of the Institute, as prescribed by the Act, are:

- To regulate and maintain the Standard of Accountancy in Uganda and;
- To prescribe and regulate the conduct of accountants and practising accountants in Uganda.

Vision

To be a world class professional accountancy institute.

Mission

To develop and promote the accountancy profession in Uganda and beyond.

Core Values

- 1) Professional Excellence.
- 2) Integrity.
- 3) Commitment.
- 4) Good Governance.
- 5) Social Responsiveness.

International Affiliations

The Institute is a member of the International Federation of Accountants (IFAC) and the Pan African Federation of Accountants (PAFA).

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1.0 ASSURANCE FRAMEWORK

1.1 The Framework

'Assurance' is a term commonly used to refer to any type of work that provides confidence to the recipient.

The IAASB assurance framework defines and describes the elements and objectives of an assurance engagement and identifies engagements to which International Standards on Assurance Engagements (ISAEs) apply. It provides a frame of reference for practicing accountants and those involved with assurance engagements, including the intended users of an assurance report and the responsible party. The Framework identifies the two types of assurance engagements a practicing accountant is permitted to perform and sets out characteristics that must be exhibited before a practicing accountant can accept an assurance engagement.

1.2 Scope of the framework

The framework identifies the following standards as following within its scope;

- a) ISAE 3000 - Assurance Engagements Other than Audits or Reviews of Historical Financial Statements
- b) ISAE 3400- The Examination of Prospective Financial Information.
- c) ISAE 3402- Assurance Reports on Controls at a Service Organization.
- d) ISAE 3410- Assurance Engagements on Greenhouse Gas Statements.
- e) ISAE 3420- Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus.
- f) ISRE 2400 (Revised) - Engagements to Review Historical Financial Statements.

Not all engagements performed by practicing accountants are assurance engagements. Other frequently performed engagements that are not consistent with the description of assurance engagement (and therefore are not covered by this Framework) include;

- Engagements covered by International Standards on Related Services (ISRSs), such as agreed-upon procedures and compilation engagements
- Preparation of tax returns where no assurance conclusion is expressed
- Consulting (or advisory) engagements, such as management and tax consulting.

Other engagements, which may be consistent with the definition of assurance engagements but not considered assurance engagements in terms of this Framework include:

- Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters; and
- Engagements that include professional opinions, views or wording from which a user may derive some assurance, if all of the following apply;
 - a) Those opinions, views or wording are merely incidental to the overall engagement;
 - b) Any written report issued is expressly restricted for use by only the intended users specified in the report;

- c) Under a written understanding with the specified intended users, the engagement is not intended to be an assurance engagement; and
- d) The engagement is not represented as an assurance engagement in the practicing accountant's report.

2.0 ASSURANCE ENGAGEMENTS

Assurance engagement means an engagement in which a practicing accountant expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. An assurance engagement can be an attestation or direct engagement.

2.1 Attestation Engagement

In an attestation engagement, a party other than the practicing accountant measures or evaluates the underlying subject matter against the criteria. A party other than the practicing accountant also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practicing accountant in the assurance report. The practicing accountant's conclusion addresses whether the subject matter information is free from material misstatement

2.2 Direct Engagement

In a direct engagement, the practicing accountant measures or evaluates the underlying subject matter against the criteria. In addition, the practicing accountant applies assurance skills and techniques to obtain sufficient appropriate evidence about the outcome of the measurement or evaluation of the underlying subject matter against the criteria. The practicing accountant may obtain that evidence simultaneously with the measurement or evaluation of the underlying subject matter, but may also obtain it before or after such measurement or evaluation. In a direct engagement, the practicing accountant's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria and is phrased in terms of the underlying subject matter and the criteria.

2.3 Types of Assurance Engagements

2.3.1 Reasonable Assurance

In a reasonable assurance engagement, the practicing accountant reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practicing accountant's conclusion. The practicing accountant's conclusion is expressed in a form that conveys the practicing accountant's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.

2.3.2 Limited Assurance

In a limited assurance engagement, the practicing accountant reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practicing accountant's attention to cause the practicing accountant to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practicing accountant's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practicing accountant is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

2.4 Elements of an Assurance Engagement

An assurance engagement constitutes the following elements:

- a) A three party relationship involving a practicing accountant, a responsible party, and intended users;
- b) An appropriate underlying subject matter;
- c) Suitable criteria;
- d) Sufficient appropriate evidence; and
- e) A written assurance report in the form appropriate to a reasonable assurance engagement or a limited assurance engagement

2.4.1 *Three party relationship*

All assurance engagements have at least three separate parties: the practicing accountant, the responsible party and the intended users.

Practicing accountant applies assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement

Responsible party. This is the party responsible for the underlying subject matter.

Intended users are the individual(s) or organization(s), or group(s) thereof that the practicing accountant expects will use the assurance report. The responsible party can be one of the intended users, but not the only one

2.4.2 Subject Matter

The subject matter, and subject matter information, of an assurance engagement can take many forms, such as: Financial performance or conditions (for example, historical or prospective financial position, financial performance and cash flows) for which the subject matter information may be the recognition, measurement, presentation and disclosure represented in financial statements. Subject matters have different characteristics, including the degree to which information about them is qualitative versus quantitative, objective versus subjective, historical versus prospective, and relates to a point in time or covers a

period. Such characteristics affect the: Precision with which the subject matter can be evaluated or measured against criteria; and The persuasiveness of available evidence. The assurance report notes characteristics of particular relevance to the intended users. An appropriate subject matter is:

- (a) Identifiable, and capable of consistent evaluation or measurement against the identified criteria; and
- (b) Such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.

2.4.3 Criteria

Criteria are the benchmarks used to measure or evaluate the underlying subject matter. Criteria can be formal, 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 the operating effectiveness of internal controls, the criteria may be based on an established internal control framework or individual control objectives specifically designed for the purpose; and when reporting on compliance, the criteria may be the applicable law, regulation or contract.

Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. Suitable criteria should exhibit the following characteristics:

- (a) Relevance: Relevant criteria result in subject matter information that assists decision-making by the intended users.
- (b) Completeness: Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
- (c) Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practicing accountants.
- (d) Neutrality: Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.
- (e) Understandability: Understandable criteria result in subject matter information that can be understood by the intended users.

2.4.4 Evidence

The practicing accountant plans and performs an assurance engagement with an attitude of professional skepticism to obtain sufficient appropriate evidence about whether the subject matter information is free of material misstatement. The practicing accountant considers materiality, assurance engagement risk, and the quantity and quality of available evidence when planning and performing the engagement, in particular when determining the nature, timing and extent of evidence-gathering procedures

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 quantity of evidence needed is affected by the risk of the subject matter information being materially misstated (the greater the risk, the more evidence is likely to be required) and also by the quality of such evidence (the higher the quality, the less may be required). Accordingly, the sufficiency and appropriateness of evidence are interrelated. However, merely obtaining more evidence may not compensate for its poor quality. 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. Even when evidence is obtained from sources external to the entity, circumstances may exist that could affect the reliability of the information obtained. For example, evidence obtained from an independent external source may not be reliable if the source is not knowledgeable.

2.4.5 Assurance Report

The practicing accountant provides a written report containing a conclusion that conveys the assurance obtained about the subject matter information. ISAs, ISREs and ISAEs establish basic elements for assurance reports. In addition, the practicing accountant considers other reporting responsibilities, including communicating with those charged with governance when it is appropriate to do so.

3.0 THE NEED FOR ASSURANCE

There is a range of subject matters over which business people, public and voluntary bodies, investors, governments, tax authorities, market regulators and their stakeholders might require assurance which can be captured under three broad categories: data - extracted or calculated volumes, values or other items; processes and controls - a series of organised activities designed to meet defined objectives; and reporting - a whole or part of a written report which may contain a combination of data, design of processes and narrative, including any assertions the reporting organisation has made.

All the above groups need to be able to rely on credible information flows to make decisions. Confidence suffers when there is uncertainty about the integrity of information or its fitness for purpose or of underlying operational processes. A particular need to build confidence in data, processes, or related information, calls for an independent eye which points to assurance reporting.

4.0 DELIVERING ASSURANCE ENGAGEMENTS

The practicing accountant should comply with this ISAE and other relevant ISAEs when performing an assurance engagement. Although ISAs and ISREs do not apply to engagements covered by ISAEs, they may nevertheless provide guidance to practicing accountants.

4.1 Ethical Requirements

The practicing accountant should comply with the requirements of Parts A and B of the *Code of Ethics for Professional Accountants*, issued by the International Ethics Standards Board for Accountants (IESBA Code). The IESBA 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.

4.2 Quality Control

The practicing accountant should implement quality control procedures that are applicable to the individual engagement. Under International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*, a firm of professional accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that the assurance reports issued by the firm or engagement partners are appropriate in the circumstances. In addition, elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.

4.3 Engagement Acceptance and Continuance

▪ Pre-conditions

The International Standard on Assurance Engagements prescribes conditions to be met before undertaking an assurance engagement. The following preconditions for an assurance engagement are relevant when considering whether an assurance engagement is to be accepted or continued:

- a) The roles and responsibilities of the appropriate parties (that is, the responsible party, the measurer or evaluator, and the engaging party, as appropriate) are suitable in the circumstances; and
- b) The engagement exhibits all of the following characteristics:
 - i. The underlying subject matter is appropriate;
 - ii. The criteria that the practicing accountant expects to be applied in the preparation of the subject matter information are suitable to the engagement circumstances, including that they exhibit the characteristics;
 - iii. The criteria that the practicing accountant expects to be applied in the preparation of the subject matter information will be available to the intended users;

- iv. The practicing accountant expects to be able to obtain the evidence needed to support the practicing accountant's conclusion;
 - v. The practicing accountant's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
 - vi. A rational purpose including, in the case of a limited assurance engagement that the practicing accountant expects to be able to obtain a meaningful level of assurance.
- The practicing accountant should accept (or continue where applicable) an assurance engagement only if the subject matter is the responsibility of a party other than the intended users or the practicing accountant. As indicated in the Assurance 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. A written acknowledgement is the most appropriate form of documenting the responsible party's understanding. In the absence of an acknowledgement of responsibility, the practicing accountant considers:
 - (a) Whether it is appropriate to accept the engagement. Accepting it may be appropriate when, for example, other sources, such as legislation or a contract, indicate responsibility; and
 - (b) If the engagement is accepted, whether to disclose these circumstances in the assurance report.
 - The practicing accountant should accept (or continue where applicable) an assurance engagement only if, on the basis of a preliminary knowledge of the engagement circumstances, nothing comes to the attention of the practicing accountant to indicate that the requirements of the IESBA Code or of the ISAEs will not be satisfied.
 - The practicing accountant considers the preconditions for assurance engagement and does not accept the engagement unless it exhibits all the characteristics required in the framework. Also, if the party engaging the practicing accountant (the "engaging party") is not the responsible party, the practicing accountant considers the effect of this on access to records, documentation and other information the practicing accountant may require to complete the engagement.
 - The practicing accountant should accept (or continue where applicable) an assurance engagement only if the practicing accountant is satisfied that those persons who are to perform the engagement collectively possess the necessary professional competencies. A practicing accountant may be requested to perform assurance engagements on a wide range of subject matters. Some subject matters may require specialized skills and knowledge beyond those ordinarily possessed by an individual practicing accountant.

4.4 Agreeing on the Terms of the Engagement

The practicing accountant should agree on the terms of the engagement with the engaging party. To avoid misunderstandings, the agreed terms are recorded in an engagement letter or

other suitable form of contract. If the engaging party is not the responsible party, the nature and content of an engagement letter or contract may vary. The existence of a legislative mandate may satisfy the requirement to agree on the terms of the engagement. Even in those situations an engagement letter may be useful for both the practicing accountant and engaging party.

The agreed terms of the engagement required by ISAE 3000 shall include:

- a) The objective and scope of the engagement;
- b) The responsibilities of the practicing accountant;
- c) The responsibilities of the entity
- d) Identification of the subject matter
- e) Identification of the applicable criteria
- f) Reference to the expected form and content of any reports to be issued by the practicing accountant and a statement that there may be circumstances in which a report may differ from its expected form and content; and
- g) An acknowledgement that the entity agrees to provide written representations at the conclusion of the engagement.

Changes in Engagement Terms

A practicing accountant should consider the appropriateness of a request, made before the completion of an assurance engagement, to change the engagement to a non-assurance engagement or from a reasonable assurance engagement to a limited assurance engagement, and should not agree to a change without reasonable justification. A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement, ordinarily will justify a request for a change in the engagement. If such a change is made, the practicing accountant does not disregard evidence that was obtained prior to the change.

Where the responsible party is the client

Where the responsible party engages the practicing accountant to perform an assurance engagement so as to increase its own and users' comfort over its operations performed in relation to the users or the information it has produced for the benefit of the users., it becomes responsible for enabling the practicing accountant to perform the necessary procedures to form the assurance conclusion among which include;

- Providing sufficient access for the practicing accountant to obtain information to understand the requirements of the engagement and to allow performance of the necessary procedures. This should include access to personnel within the responsible party, as well as to premises and relevant operational and other records. The responsible party should also take ownership for the completeness and accuracy of information supplied to the practicing accountant during the course of the engagement. If the responsible party (or any other party to the engagement) restricts the practicing accountant from obtaining the evidence required in reaching the assurance conclusion, this may be considered a material limitation on the scope of the practicing accountant's work and may affect the assurance conclusion.

- Disclosing significant changes or events that have occurred or are expected to occur that could reasonably be expected to have an effect on the assurance conclusion.
- Disclosing any illegal acts, fraud, or uncorrected errors attributable to the responsible party's management or employees that have or may affect the users, and the responsible party's whistle-blowing arrangements to the practicing accountant.
- Disclosing all other significant matters of which it is aware and might have a bearing on the subject matter or subject matter information, user needs or any other matters that affect the engagement scope or the procedures the practicing accountant performs, including the assurance report.
- Providing the practicing accountant with a letter of representation that includes confirmation of the responsible party's responsibilities for the provision of information to the practicing accountant;

When the users are the client

Users may engage the practicing accountant to assess aspects of the operations performed, or information provided, by the responsible party with a view to increasing their confidence in these aspects and information. The practicing accountant considers the increased assurance engagement risk when accepting an engagement assigned by the users because the responsible party may not be part of the engagement which will impact the practicing accountant's knowledge of the subject matter and evidence gathering process. In this type of engagement, the responsible party has a contractual (or other) obligation only to the users but not to the practicing accountant. It is therefore important for the practicing accountant to consider to what degree access to the information at the responsible party is required and whether such access is possible, as this may affect the assurance conclusion.

Where the users engage the practicing accountant to perform an assurance engagement, they are expected to fulfill their responsibilities and those are broadly in line with those for an engagement with the responsible party. Users are responsible for arranging access for the practicing accountant to the responsible party's personnel, information and documentation. The users and the responsible party will need to contract or agree other arrangements that are suitable for the practicing accountant to obtain sufficient information and evidence to support conclusions. Similarly, access to personnel, premises and relevant operational and other records kept at the user's premises may also be needed. The users may provide information on issues, changes or other information of significance that they are aware of and which may have an effect on the assurance conclusion.

Although a management representation letter from the responsible party may not be obtainable for this type of engagement, the practicing accountant may find it useful to obtain a written confirmation from the responsible party on the factual findings and its responsibilities in relation to the subject matter (eg, the terms of the contract) before releasing the draft report to the client. The practicing accountant may need to contract separately with the responsible party to ensure rights of access and agree protocols for obtaining information. The practicing accountant ensures that reporting protocols regarding who has access to draft

or final reports and the rights and obligations (for example to confirm factual accuracy of findings) of the responsible party to comment on, or require the practicing accountant to reflect comments in, the report are agreed with the responsible party and where appropriate, with the users. The basis of such provision is agreed in writing and does not establish any additional duty of care outside the terms of the engagement. The practicing accountant considers the duty of care to his client.

4.5 Planning the Engagement

Once the practicing accountant knows the subject matter of the engagement and which criteria will be used to evaluate it, specific engagement objectives can be set to focus the detail of the fieldwork to obtain the evidence. Specific objectives would depend on the subject matter and may include an appropriate mix of both quantitative assertions and qualitative claims in relation to claims being made by management in their report.

The practicing accountant should plan the engagement so that it will be performed effectively. Planning involves; developing an overall strategy for the scope, emphasis, timing and conduct of the engagement, and an engagement plan, consisting of a detailed approach for the nature, timing and extent of evidence gathering procedures to be performed and the reasons for selecting them.

Why plan?

- Adequate planning helps to devote appropriate attention to important areas of the engagement, identify potential problems on a timely basis and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner.
- Adequate planning also assists the practicing accountant to properly assign work to engagement team members, and facilitates their direction and supervision and the review of their work.
- It assists, where applicable, the coordination of work done by other practicing accountants and experts.

The nature and extent of planning activities will vary with the engagement circumstances, for example the size and complexity of the entity and the practicing accountant's previous experience with it. Examples of the main matters to be considered include:

- (a) The terms of the engagement.
 - (b) The characteristics of the subject matter and the identified criteria.
 - (c) The engagement process and possible sources of evidence.
 - (d) The practicing accountant's understanding of the entity and its environment, including the risks that the subject matter information may be materially misstated.
 - (e) Identification of intended users and their needs, and consideration of materiality and the components of assurance engagement risk.
- (a) Personnel and expertise requirements, including the nature and extent of experts' involvement.

Planning is not a discrete phase, but rather a continual and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the practicing accountant may need to revise the overall strategy and engagement plan, and thereby the resulting planned nature, timing and extent of further procedures.

The practicing accountant should plan and perform an engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter information to be materially misstated. An attitude of professional skepticism means the practicing accountant makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party.

The practicing accountant should obtain an understanding of the subject matter and other engagement circumstances, sufficient to identify and assess the risks of the subject matter information being materially misstated, and sufficient to design and perform further evidence-gathering procedures.

Obtaining an understanding of the subject matter and other engagement circumstances is an essential part of planning and performing an assurance engagement. That understanding provides the practicing accountant with a frame of reference for exercising professional judgment throughout the engagement, for example when:

- a) Considering the characteristics of the subject matter;
- b) Assessing the suitability of criteria;
- c) Identifying where special consideration may be necessary, for example factors indicative of fraud, and the need for specialized skills or the work of an expert;
- d) Establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and considering qualitative materiality factors;
- e) Developing expectations for use when performing analytical procedures;
- f) Designing and performing further evidence-gathering procedures to reduce assurance engagement risk to an appropriate level; and
- g) Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.

The practicing accountant uses professional judgment to determine the extent of the understanding required of the subject matter and other engagement circumstances. The practicing accountant considers whether the understanding is sufficient to assess the risks that the subject matter information may be materially misstated. The practicing accountant ordinarily has a lesser depth of understanding than the responsible party.

Assessing the Appropriateness of the Subject Matter

The practicing accountant should assess the appropriateness of the subject matter. An appropriate subject matter has the characteristics listed in the Assurance Framework. The practicing accountant also identifies those characteristics of the subject matter that are particularly relevant to the intended users, which are to be described in the assurance report.

As indicated in the Framework, a practicing accountant does not accept an assurance engagement unless the practicing accountant's preliminary knowledge of the engagement circumstances indicates that the subject matter is appropriate. After accepting the engagement, however, if the practicing accountant concludes that the subject matter is not appropriate, the practicing accountant expresses a qualified or adverse conclusion or a disclaimer of conclusion. In some cases the practicing accountant considers withdrawing from the engagement. When undertaking an assurance engagement, therefore, the practicing accountant considers:

- whether the subject matter is identifiable and capable of being consistently evaluated or measured against criteria; and
- the availability and the persuasiveness of evidence.

The characteristics of the subject matter also affect the type of assurance as these in turn affect the criteria for assessing the information, evidence gathering and ultimately the assurance conclusion.

Assessing the Suitability of the Criteria

The practicing accountant should assess the suitability of the criteria to evaluate or measure the subject matter. Suitable criteria have the characteristics listed in the Assurance Framework. As indicated in the Framework, a practicing accountant does not accept an assurance engagement unless the practicing accountant's preliminary knowledge of the engagement circumstances indicates that the criteria to be used are suitable. After accepting the engagement, however, if the practicing accountant concludes that the criteria are not suitable, the practicing accountant expresses a qualified or adverse conclusion or a disclaimer of conclusion. In some cases the practicing accountant considers withdrawing from the engagement.

The Assurance Framework indicates that criteria can either be established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. When established criteria exist for a subject matter, specific users may agree to other criteria for their specific purposes. For example, various frameworks can be used as established criteria for evaluating the effectiveness of internal control. Specific users may, however, develop a more detailed set of criteria that meet their specific needs in relation to, for example, prudential supervision. In such cases, the assurance report:

- (a) Notes, when it is relevant to the circumstances of the engagement, that the criteria are not embodied in laws or regulations, or issued by authorized or recognized bodies of experts that follow a transparent due process; and
- (b) States that it is only for the use of the specific users and for their purposes. For some subject matters, it is likely that no established criteria exist. In those cases, criteria are specifically developed.

The practicing accountant considers whether specifically developed criteria result in an assurance report that is misleading to the intended users. The practicing accountant attempts to have the intended users or the engaging party acknowledge that specifically developed criteria are suitable for the intended users' purposes. The practicing accountant considers how the absence of such an acknowledgement affects what is to be done to assess the

suitability of the identified criteria, and the information provided about the criteria in the assurance report.

Materiality and Assurance Engagement Risk

Materiality

The practicing accountant should consider materiality and assurance engagement risk when planning and performing an assurance engagement. The practicing accountant considers materiality when determining the nature, timing and extent of evidence-gathering procedures, and when evaluating whether the subject matter information is free of misstatement. In the context of reporting by management, information is material if its omission or misstatement could influence decisions that users make. In an assurance engagement, misstatements or omissions in the light of subject matter information are considered to be material if they, individually or in the aggregate, could influence decisions which users make. Considering materiality requires the practicing accountant to understand and assess what factors might influence the decisions of the intended users. For example, when the identified criteria allow for variations in the presentation of the subject matter information, the practicing accountant considers how the adopted presentation 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 evaluation or measurement of the subject matter, and the interests of the intended users. The quantitative aspect of materiality is generally considered in comparison to the magnitude of potential misstatement in relation to the presentation of the subject matter information. In contrast, the qualitative aspect of materiality primarily concerns the sensitivity of users in relation to the misstatement or the risk of misstatement of the subject matter information. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the practicing accountant's judgment.

Materiality is a concept that is used throughout the engagement. For example, when determining the extent of testing to be carried out, the concept will be used to determine sample sizes. As the practicing accountant carries out their testing, exceptions may arise. Whether exceptions lead the assurance report to be qualified is a matter of professional judgment and, again, the practicing accountant needs to consider materiality in light of the user needs.

Engagement Risk

The Assurance Framework indicates that, in general, assurance engagement risk comprises inherent risk, control risk and detection risk. The degree to which the practicing accountant considers each of these components is affected by the engagement circumstances, in particular the nature of the subject matter and whether a reasonable assurance or a limited assurance engagement is being performed.

The practicing accountant should reduce assurance engagement risk to an acceptably low level in the circumstances of the engagement. In a reasonable assurance engagement, the practicing accountant reduces assurance engagement risk to an acceptably low level in the

circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression of the practicing accountant's conclusion. The level of assurance engagement risk is higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures. However, in a limited assurance engagement, the combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practicing accountant to obtain a meaningful level of assurance as the basis for a negative form of expression. To be meaningful, the level of assurance obtained is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than Inconsequential.

4.6 Performing the Engagement

4.6.1 Obtaining Evidence

The same principles apply in evidence gathering for an assurance engagement as for a financial statement audit. The choices available to the practicing accountant include: inspection, observation, enquiry, confirmation, re-calculation, re-performance and analytical procedures. The practicing accountant and engagement team will need to use judgement to decide on the procedures that will provide sufficient, appropriate evidence in the context of the assurance engagement. This is likely to include both tests of controls and substantive procedures.

The practicing accountant should obtain sufficient appropriate evidence on which to base the conclusion. 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 practicing accountant 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 an evidence-gathering procedure for which there is no alternative. The practicing accountant uses professional judgment and exercises professional skepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report.

An assurance engagement rarely involves the authentication of documentation, nor is the practicing accountant trained as or expected to be an expert in such authentication. However, the practicing accountant considers the reliability of the information to be used as evidence.

Sufficient appropriate evidence in a reasonable assurance engagement is obtained as part of an iterative, systematic engagement process involving:

- (a) Obtaining an understanding of the subject matter and other engagement circumstances which, depending on the subject matter, includes obtaining an understanding of internal control;
- (b) Based on that understanding, assessing the risks that the subject matter information may be materially misstated;

- (c) Responding to assessed risks, including developing overall responses, and determining the nature, timing and extent of further procedures;
- (d) Performing further procedures clearly linked to the identified risks, using a combination of inspection, observation, confirmation, recalculation, re-performance, analytical procedures and inquiry. Such further procedures involve substantive procedures, including obtaining corroborating information from sources independent of the entity, and depending on the nature of the subject matter, tests of the operating effectiveness of controls; and
- (e) Evaluating the sufficiency and appropriateness of evidence.

“Reasonable assurance” is less than absolute assurance. Reducing assurance engagement risk to zero is very rarely attainable or cost beneficial as a result of factors such as the following:

- i. The use of selective testing.
- ii. The inherent limitations of internal control.
- iii. The fact that much of the evidence available to the practicing accountant is persuasive rather than conclusive.
- iv. The use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
- v. In some cases, the characteristics of the subject matter.

Both reasonable assurance and limited assurance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence. The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are, however, deliberately limited relative to a reasonable assurance engagement. For some subject matters, there may be specific ISAEs to provide guidance on procedures for gathering sufficient appropriate evidence for a limited assurance engagement. In the absence of a specific ISAE, the procedures for gathering sufficient appropriate evidence will vary with the circumstances of the engagement, in particular: the subject matter, and the needs of the intended users and the engaging party, including relevant time and cost constraints. For both reasonable assurance and limited assurance engagements, if the practicing accountant becomes aware of a matter that leads the practicing accountant to question whether a material modification should be made to the subject matter information, the practicing accountant pursues the matter by performing other procedures sufficient to enable the practicing accountant to report.

Sampling

The choice of evidence gathering method primarily depends on the subject matter, the criteria, the sources of evidence and whether the engagement is providing reasonable or limited assurance. In the case of a reasonable assurance engagement, the sample sizes selected to conduct tests and collect evidence need not be different from those determined using the principles applicable for a financial statement audit, because the risk of a material misstatement in the management assertion needs to be reduced to a similar acceptably low level. In a limited assurance engagement where the practicing accountant is providing a negative form of conclusion less evidence is required and therefore less testing may be performed. This can impact the type of procedures and tests employed and the sample sizes.

In a limited assurance engagement, substantive testing is less than that required to provide reasonable assurance and this may involve:

- Selecting different techniques to perform substantive procedures. Techniques such as inquiry, observation and limited inspection are often used. Tests may also go into less detail: for example, the practicing accountant may decide that the internally generated evidence is sufficient rather than obtaining external confirmations.
- Performing fewer procedures for a particular assertion than would be the case for reasonable assurance where the practicing accountant may perform a combination of several procedures.
- Use of analytical procedures rather than substantive tests of detail.
- In a multi-site engagement, visiting fewer sites to obtain evidence.
- Altering sample selection techniques: for example, for a reasonable assurance engagement the practicing accountant may use a statistical sampling technique; whereas in a limited assurance engagement the practicing accountant may use judgement to select items.

The sample sizes that are selected will depend upon the subject matter, the risks associated with the type of report and the required level of confidence. In addition to the nature of the subject matter, the practicing accountant should consider whether it involves data, a methodology or a whole report. The higher the risks involved the larger the sample sizes are likely to be. When determining sample sizes the practicing accountant also takes into account the nature of any limitations imposed on testing when scoping the engagement.

The practicing accountant's testing strategy should be determined as part of the engagement planning.

Throughout the testing the practicing accountant should remain alert to any inconsistencies in specific areas that indicate the need to investigate these further. In doing so the practicing accountant also considers the risk implications and increases sample sizes if unacceptable error rates are detected when evaluating the implications and potential impacts. Because of the iterative nature inherent in assurance engagements, the practicing accountant should note that sample sizes for limited assurance engagements can reach those that might otherwise have been used for a reasonable assurance engagement.

4.6.2 Representations by the Responsible Party

The practicing accountant should obtain representations from the responsible party, as appropriate. Written confirmation of oral representations reduces the possibility of misunderstandings between the practicing accountant and the responsible party. In particular, the practicing accountant requests from the responsible party a written representation that evaluates or measures the subject matter against the identified criteria, whether or not it is to be made available as an assertion to the intended users. Having no written representation may result in a qualified conclusion or a disclaimer of conclusion on the basis of a limitation on the scope of the engagement. The practicing accountant may also include a restriction on the use of the assurance report.

During an assurance engagement, the responsible party may make representations to the practicing accountant, either unsolicited or in response to specific inquiries. When such

representations relate to matters that are material to the subject matter's evaluation or measurement, the practicing accountant:

- a. Evaluates their reasonableness and consistency with other evidence obtained, including other representations;
- b. Considers whether those making the representations can be expected to be well informed on the particular matters; and
- c. Obtains corroborative evidence in the case of a reasonable assurance engagement. The practicing accountant may also seek corroborative evidence in the case of a limited assurance engagement.

Representations by the responsible party cannot replace other evidence the practicing accountant could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation or measurement of the subject matter, when such evidence would ordinarily be available, constitutes a limitation on the scope of the engagement, even if a representation from the responsible party has been received on the matter.

4.6.3 Using the work of Internal auditors

A responsible party may have an internal audit department that as part of its audit plan performs tests of some aspects of the processes and operations which are also the subject of the assurance report. The practicing accountant may wish to consider whether it might be effective and efficient to use the results of testing performed by internal auditors to alter the nature, timing or extent of the work the practicing accountant otherwise might have performed in forming the assurance conclusion. In such cases the practicing accountant assesses the independence, objectivity and competence of the internal auditors and the nature, scope, and subjectivity of the work performed by internal audit. Where the practicing accountant uses the work of internal auditors, the practicing accountant performs sufficient testing to obtain the principal evidence to reach an appropriate assurance conclusion. The practicing accountant also considers making reference to the internal auditors and their capability in the assurance report and clarifies the extent of the use of the work of the internal auditors.

4.6.2 Using the Work of an Expert

The subject matter and related criteria of some assurance engagements may include aspects requiring specialized knowledge and skills in the collection and evaluation of evidence. In these situations, the practicing accountant may decide to use the work of persons from other professional disciplines, referred to as experts, who have the required knowledge and skills. When the work of an expert is used in the collection and evaluation of evidence, the practicing accountant and the expert should, on a combined basis, possess adequate skill and knowledge regarding the subject matter and the criteria for the practicing accountant to determine that sufficient appropriate evidence has been obtained.

Due care is a required professional quality for all individuals, including experts, involved in an assurance engagement. While experts do not require the same proficiency as the practicing accountant in performing all aspects of an assurance engagement, the practicing accountant

determines that the experts have a sufficient understanding of the ISAEs to enable them to relate the work assigned to them to the engagement objective. The practicing accountant adopts quality control procedures that address the responsibility of each person performing the assurance engagement, including the work of any experts who are not professional accountants, to ensure compliance with this ISAE and other relevant ISAEs in the context of their responsibilities.

The practicing accountant should be involved in the engagement and understand the work for which an expert is used, to an extent that is sufficient to enable the practicing accountant to accept responsibility for the conclusion on the subject matter information. The practicing accountant considers the extent to which it is reasonable to use the work of an expert in forming the practicing accountant's conclusion.

The practicing accountant should obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the assurance engagement. In assessing the sufficiency and appropriateness of the evidence provided by the expert, the practicing accountant evaluates:

- (f) The professional competence, including experience, and objectivity of the expert;
- (g) The reasonableness of the assumptions, methods and source data used by the expert; and
- (h) The reasonableness and significance of the expert's findings in relation to the circumstances of the engagement and the practicing accountant's conclusion.

4.6.3 Considering Subsequent Events

The practicing accountant should consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report. The extent of consideration of subsequent events depends on the potential for such events to affect the subject matter information and to affect the appropriateness of the practicing accountant's conclusion. Consideration of subsequent events in some assurance engagements may not be relevant because of the nature of the subject matter. For example, when the engagement requires a conclusion about the accuracy of a statistical return at a point in time, events occurring between that point in time and the date of the assurance report, may not affect the conclusion, or require disclosure in the return or the assurance report.

4.6.4 Documentation

The practicing accountant should document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with ISAEs. Documentation includes a record of the practicing accountant's reasoning on all significant matters that require the exercise of judgment, and related conclusions. The existence of difficult questions of principle or judgment, calls for the documentation to include the relevant facts that were known by the practicing accountant at the time the conclusion was reached. It is neither necessary nor practical to document every matter the practicing accountant considers. In applying professional judgment to assessing the extent of documentation to be prepared and retained, the practicing accountant may consider what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken (but not the detailed aspects of the engagement) to another practicing

accountant who has no previous experience with the engagement. That other practicing accountant may only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the practicing accountant who prepared the documentation.

4.7 Reporting

Based on the evidence obtained during the engagement, the practicing accountant concludes whether the assurance objective has been met. The objective would be for either a positive or negative assurance conclusion to be issued in accordance with the type of assurance, ie, reasonable or limited assurance, as agreed at the start of the engagement. The title of an assurance report includes the term 'assurance' to distinguish it from non-assurance engagements, for instance agreed-upon procedures engagements. The report draws the attention of the addressees to the basis of the practicing accountant's work eg, ISAE 3000 and any appropriate technical releases.

4.7.1 The Independent Assurance Report

The practicing accountant should conclude whether sufficient appropriate evidence has been obtained to support the conclusion expressed in the assurance report. In developing the conclusion, the practicing accountant considers all relevant evidence obtained, regardless of whether it appears to corroborate or to contradict the subject matter information. The assurance report should be in writing and should contain a clear expression of the practicing accountant's conclusion about the subject matter information.

This ISAE does not require a standardized format for reporting on all assurance engagements. Instead it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practicing accountant chooses a "short form" or "long form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements. "Long form" reports often describe in detail the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement and, in some cases, recommendations, as well as the basic elements.

Any findings and recommendations are clearly separated from the practicing accountant's conclusion on the subject matter information, and the wording used in presenting them makes it clear they are not intended to affect the practicing accountant's conclusion. The practicing accountant may use headings, paragraph numbers, typographical devices, for example the bolding of text and other mechanisms to enhance the clarity and readability of the assurance report.

4.7.1.1 Assurance Report Content

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 it

from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practicing accountant.

- (b) **An addressee:** an addressee identifies the party or parties to whom the assurance report is directed. Whenever practical, the assurance report is addressed to all the intended users, but in some cases there may be other intended users.
- (c) **An identification and description of the subject matter information and, when appropriate, the subject matter:** this includes for example:
 - (i) The point in time or period of time to which the evaluation or measurement of the subject matter relates;
 - (ii) Where applicable, the name of the entity or component of the entity to which the subject matter relates; and
 - (iii) An explanation of those characteristics of the subject matter or the subject matter information of which the intended users should be aware, and how such characteristics may influence the precision of the evaluation or measurement of the subject matter against the identified criteria, or the persuasiveness of available evidence. For example:
 - The degree to which the subject matter information is qualitative versus quantitative, objective versus subjective, or historical versus prospective.
 - Changes in the subject matter or other engagement circumstances that affect the comparability of the subject matter information from one period to the next. When the practicing accountant's conclusion is worded in terms of the responsible party's assertion, that assertion 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) **Identification of the criteria:** the assurance report identifies the criteria against which the subject matter was evaluated or measured so that the intended users can understand the basis for the practicing accountant's conclusion. The assurance report may include the criteria, or refer to them if they are contained in an assertion prepared by the responsible party that is available to the intended users or if they are otherwise available from a readily accessible source. The practicing accountant considers whether it is relevant to the circumstances, to disclose:
 - (i) The source of the criteria, and whether or not the criteria are embodied in laws or regulations, or issued by authorized or recognized bodies of experts that follow a transparent due process, that is, whether they are established criteria in the context of the subject matter (and if they are not, a description of why they are considered suitable);
 - (ii) Measurement methods used when the criteria allow for choice between a number of methods;
 - (iii) Any significant interpretations made in applying the criteria in the engagement circumstances; and
 - (iv) Whether there have been any changes in the measurement methods used.

Where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria: while in some cases, inherent limitations can be expected to be well understood by readers of an assurance report,

in other cases it may be appropriate to make explicit reference in the assurance report. For example, in an assurance report related to the effectiveness of internal control, it may be appropriate to note that the historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

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: in addition, whenever the assurance report is intended only for specific intended users or a specific purpose, the practicing accountant considers stating this fact in the assurance report. This provides a caution to readers that the assurance report is restricted to specific users or for specific purposes.

- (e) **A statement to identify the responsible party and to describe the responsible party's and the practicing accountant's responsibilities:** this informs the intended users that the responsible party is responsible for the subject matter in the case of a direct reporting engagement, or the subject matter information in the case of an assertion-based engagement, and that the practicing accountant's role is to independently express a conclusion about the subject matter information.
- (f) **A statement that the engagement was performed in accordance with ISAEs:** where there is a subject matter specific ISAE, that ISAE may require that the assurance report refer specifically to it.
- (g) **A summary of the work performed:** the summary will help the intended users understand the nature of the assurance conveyed by the assurance report. ISA 700, *The Auditor's Report on Financial Statements*, and ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*, provide a guide to the appropriate type of summary. Where no specific ISAE provides guidance on evidence-gathering procedures for a particular subject matter, the summary might include a more detailed description of the work performed. Because in a limited assurance engagement an appreciation of the nature, timing and extent of evidence-gathering procedures performed is essential to understanding the assurance conveyed by a conclusion expressed in the negative form, the summary of the work performed:
 - Is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing and extent of evidence-gathering procedures. It may be appropriate to indicate procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement; and
 - States that the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and that therefore less assurance is obtained than in a reasonable assurance engagement.
- (h) **The practicing accountant's conclusion:** where the subject matter information is made up of a number of aspects, separate conclusions may be provided on each aspect. While not all such conclusions need to relate to the same level of evidence-gathering

procedures, each conclusion is expressed in the form that is appropriate to either a reasonable-assurance or a limited assurance engagement. Where appropriate, the conclusion should inform the intended users of the context in which the practicing accountant's conclusion is to be read

In a reasonable assurance engagement, the conclusion should be expressed in the positive form: for example: "In our opinion internal control is effective, in all material respects, based on *XYZ criteria*" or "In our opinion *the responsible party's* assertion that internal control is effective, in all material respects, based on *XYZ criteria*, is fairly stated."

In a limited assurance engagement, the conclusion should be expressed in the negative form: for example: "Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control is not effective, in all material respects, based on *XYZ criteria*" or "Based on our work described in this report, nothing has come to our attention that causes us to believe that *the responsible party's* assertion that internal control is effective, in all material respects, based on *XYZ criteria*, is not fairly stated."

Where the practicing accountant expresses a conclusion that is other than unqualified, the assurance report should contain a clear description of all the reasons:

Qualified Conclusions, Adverse Conclusions and Disclaimers of Conclusion

The practicing accountant should not express an unqualified conclusion when the following circumstances exist and, in the practicing accountant's judgment, the effect of the matter is or may be material:

- (a) There is a limitation on the scope of the practicing accountant's work, that is, circumstances prevent, or the responsible party or the engaging party imposes a restriction that prevents, the practicing accountant from obtaining evidence required to reduce assurance engagement risk to the appropriate level. The practicing accountant should express a qualified conclusion or a disclaimer of conclusion;
- (b) In those cases where:
 - (i) The practicing accountant's conclusion is worded in terms of the responsible party's assertion, and that assertion is not fairly stated, in all material respects; or
 - (ii) The practicing accountant's conclusion is worded directly in terms of the subject matter and the criteria, and the subject matter information is materially misstated, the practicing accountant should express a qualified or adverse conclusion; or
- (c) When it is discovered, after the engagement has been accepted, that the criteria are unsuitable or the subject matter is not appropriate for an assurance engagement. The practicing accountant should express:
 - (i) A qualified conclusion or adverse conclusion when the unsuitable criteria or inappropriate subject matter is likely to mislead the intended users; or
 - (ii) A qualified conclusion or a disclaimer of conclusion in other cases.

The practicing accountant should express a qualified conclusion when the effect of a matter is not so material or pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion is expressed as being “except for” the effects of the matter to which the qualification relates. In those cases where the practicing accountant’s unqualified conclusion would be worded in terms of the responsible party’s assertion, and that assertion has identified and properly described that the subject matter information is materially misstated, the practicing accountant either:

- (a) Expresses a qualified or adverse conclusion worded directly in terms of the subject matter and the criteria; or
- (b) If specifically required by the terms of the engagement to word the conclusion in terms of the responsible party’s assertion, expresses an unqualified conclusion but emphasizes the matter by specifically referring to it in the assurance report.

Emphasis of matter: The practicing accountant may need to draw the reader’s attention to a fact or matters such as any inherent uncertainties already identified in the management report. If management do not make the required disclosures themselves, this will lead to a qualification.

Prior year qualifications: Active consideration may need to be given to how to draft the current year’s assurance report when it appears in tables with prior year’s data, some of which was qualified in the relevant assurance report. This might be achieved through an emphasis of matter but the need may vary depending on a range of factors and each case needs to be considered in its own right.

- (i) **The assurance report date:** this informs the intended users that the practicing accountant has considered the effect on the subject matter information and on the assurance report of events that occurred up to that date.
- (j) **The name of the firm or the practicing accountant, and a specific location, which ordinarily is the city where the practicing accountant maintains the office that has responsibility for the engagement:** this informs the intended users of the individual or firm assuming responsibility for the engagement.

The practicing accountant may expand the assurance report to include other information and explanations that are not intended to affect the practicing accountant’s conclusion. Examples include: details of the qualifications and experience of the practicing accountant and others involved with the engagement, disclosure of materiality levels, findings relating to particular aspects of the engagement, and recommendations. Whether to include any such information depends on its significance to the needs of the intended users. Additional information is clearly separated from the practicing accountant’s conclusion and worded in such a manner so as not to affect that conclusion.

The use of consistent wording

In drafting the assurance report it is important for the practicing accountant to be aware of the language being used. One could mistakenly use language that implies assurance which is inconsistent with the objectives of the engagement or with the wording that is used in the management assertion. The key requirements are that the language in the assurance report should be:

- Consistent with the scope of work agreed in the engagement letter: ie, that it reflects accurately the scope of work agreed.
- Consistent with that used in the management assertions: ie, that it:
 - uses the same terminology;
 - uses language that is consistent with the nature of the assurance eg, data, process or whole report; and
 - makes reference to assurance in relation to the management assertions themselves rather than by direct reference to the subject matter (which might be construed by the user as a direct report by the practicing accountant);
 - Internally consistent between the elements of the report itself, for example:
 - terminology should be consistent throughout;
 - should the scope of work agreed be data, then the description of the work performed and conclusion reached should refer to data and not processes or a whole report; and
 - the conclusion should not imply assurance over the operation of controls in the system used to calculate the data, unless that was both intended and a part of the scope of work agreed. In order to achieve this degree of consistency it is expected that the practicing accountant will be involved in detailed discussions with the client regarding the wording not just of the assurance report but also of the management assertions in the course of the engagement.

4.7.2 Other Reporting Responsibilities

The practicing accountant should consider other reporting responsibilities, including the appropriateness of communicating relevant matters of governance interest arising from the assurance engagement with those charged with governance.

In this ISAE, “governance” describes the role of persons entrusted with the supervision, control and direction of a responsible party. Those charged with governance ordinarily are accountable for ensuring that an entity achieves its objectives and for reporting to interested parties. If the engaging party is different from the responsible party it may not be appropriate to communicate directly with the responsible party or those charged with governance over the responsible party.

In this ISAE, “relevant matters of governance interest” are those that arise from the assurance engagement and, in the practicing accountant’s opinion, are both important and relevant to those charged with governance. Relevant matters of governance interest include only those matters that have come to the attention of the practicing accountant while performing the assurance engagement. If the terms of the engagement do not specifically require it, the practicing accountant is not required to design procedures for the specific purpose of identifying matters of governance interest.

4.7.3 Consideration of uncorrected errors, fraud or illegal acts

While performing procedures on the operations performed by third parties, the practicing accountant may become aware of uncorrected errors, fraud or illegal acts attributable to the

responsible party's systems, management or employees that may affect the functions that interact with the users. Unless clearly inconsequential, the practicing accountant determines from the responsible party whether this information has been communicated to the affected users. If the responsible party has not communicated this information to the users and is unwilling to do so, then the practicing accountant considers the implications for the engagement.

Where the engagement is with the responsible party, the practicing accountant informs the responsible party's audit committee or other management with equivalent authority. If the audit committee or equivalent authority does not respond appropriately, the practicing accountant considers whether to resign from the engagement and whether any other action or reporting is appropriate. The practicing accountant is generally not required to confirm with the users whether the responsible party has communicated such information. However, if the client is the user, the practicing accountant considers the materiality of the matter and whether the matter has been brought to the attention of the responsible party and promptly corrected. Depending on the outcome, the practicing accountant may need to take advice on further actions.

4.5.4 Inappropriate use

The practicing accountant is associated with a subject matter when reporting on information about the subject matter or consenting to the use of the practicing accountant's name in a professional connection with respect to that subject matter. If the practicing accountant learns that the client (or any other party) is inappropriately using the practicing accountant's name in association with a subject matter, the practicing accountant requires the client (or other party) to cease doing so. The practicing accountant may also consider what other steps may be needed, such as informing any known parties that may have received the report that inappropriately uses the practicing accountant's name and seeking legal advice.

4.5.5 Management letter

During the course of an assurance engagement, practicing accountants may come across matters that may not be sufficiently significant to affect the assurance conclusion, but may nevertheless be useful for management. Such matters may include errors, deficiencies and risks related to the subject matter but which is not material to the conclusion, recommendations, and comment on the status of matters that were included in a similar report to management in previous periods. Matters for communication to management are not a qualification of the assurance conclusion. These matters are therefore preferably communicated in a separate management letter rather than in the assurance report.

APPENDIX: Illustration of Application of Standards and Guidance

No.	Areas	Example of subject matter	Evaluation criteria	Assurance standards/ Guidance
1	Financial information and Performance measures such as KPI	Performance of internally developed processes and controls	Company developed processes and controls	ISAE 3000
		Quality of performance	Pre-defined arrangements and data measurement methods	ISAE 3000
		Achievement of operational/performance target	Commonly used definitions of KPIs	ISAE 3000
			Sponsor defined KPIs	ISAE 3000
Company defined processes and definitions in relation to benchmarking reports and analyses	ISAE 3000			
2	Aspects of Information Technology like information flows and security	Data and information security	Frameworks for data centers and web trust	ISAE 3000
3	Regulatory processes and compliance	Compliance with regulatory rules	Government Regulation together with any related guidance issued by the regulator	ISAE 3000
			Any specific regulatory undertakings	ISAE 3000
		Compliance with other rules	Detailed rules of the industry association	ISAE 3000
		Anti-money laundering requirements	Anti-Money Laundering Act and Regulations	
4	Compliance with contractual agreements	Allocation of royalties	The contractual clauses and agreements with the contracting parties as to interpretation of clauses	ISAE 3000
		Share profits, shared cost savings	Joint venture agreements in relation to cost or profit sharing arrangements	ISAE 3000
5	Environmental Information	Risk assessment processes	Occupational Health and Safety Act and Regulations	ISAE 3000
6	Risk management systems and processes	Business risk management arrangements	Company's own developed criteria based on best practices in risk management	ISAE 3000
7	Ethics and behavior	Anti-bribery procedures	Anti-Corruption Act and Ministry of Justice guidance in relation to Bribery and Corruption	ISAE 3000

			OECD guidance on anti-bribery and corruption	ISAE 3000
		Ethical investment arrangement and its function	Standards as defined by independent bodies like Transparency International	ISAE 3000
8	Internal controls and internal control environment	Corporate governance procedures	Companies Act (Table F), ICGU Corporate Governance Manual, Capital Markets Corporate Governance Guidelines and Corporate Governance Best Practices	ISAE 3000
		Internal controls over financial and operational controls	Company developed framework	ISAE 3000
9	Governance, strategy and management processes	Management processes	Process objectives set by the organisation	ISAE 3000