



MALAYSIAN INSTITUTE
OF ACCOUNTANTS
ACCOUNTANTS: MANAGERS OF VALUE

Exposure Draft
ISAE 3000/2011
1 June 2011

Proposed International Standard on Assurance Engagements (ISAE)

ISAE 3000 (Revised), Assurance Engagements
Other Than Audits or Reviews of Historical
Financial Information

Proposed Consequential Amendments

International Framework for Assurance
Engagements

ISAE 3402, Assurance Reports on Controls at a
Service Organization

Exposure Draft of Proposed ISAE 3410, Assurance
Engagements on Greenhouse Gas Statements

<p>Issued for Comment Response Due Date 1 July 2011</p>
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THE MALAYSIAN INSTITUTE OF ACCOUNTANTS INVITES COMMENT ON THE INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS ("ISAE") 3000 (REVISED), ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF HISTORICAL FINANCIAL INFORMATION

The Malaysian Institute of Accountants ("MIA") has approved the release of this exposure draft on 1 June 2011 for distribution to members, regulatory bodies and other interested parties for comment. The exposure draft may be modified in the light of comments received before being issued in the form of an Approved Standard on Assurance Engagements.

The International Auditing and Assurance Standards Board ("IAASB") approved the proposed International Standard on Assurance Engagements ("ISAE") 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information, for publication in April 2011.

As a member of the International Federation of Accountants ("IFAC"), MIA is obliged to support the work of IFAC by informing its members of every pronouncement issued by IFAC, to work towards implementation, when and to the extent possible under local circumstances, of those pronouncements and specifically to incorporate IAASB's International Standards in national auditing pronouncements.

The explanatory memorandum provides background to, an explanation, and request for specific comments of the proposed ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

MIA looks forward to receiving comments on this exposure draft from members, regulatory bodies and other interested parties. MIA welcomes comments on all matters addressed in the exposure draft.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for MIA to be made aware of this view.

Comments should be submitted electronically by **1 July 2011**.

Unless respondents request confidentiality, their comments are a matter of public record. All comments are to be directed to:

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to, and an explanation of, the proposed revised International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. The International Auditing and Assurance Standards Board (IAASB) approved the proposed ISAE in March 2011 for exposure.

Background

Extant ISAE 3000 was approved by the IAASB in December 2003. At the time of its release, the IAASB acknowledged assurance services as an evolving field and, accordingly, decided that the IAASB should keep practical implementation of ISAE 3000 under review. Since its issuance in 2003, practitioners and national standard setters have gained considerable experience with ISAE 3000. That experience had identified a number of opportunities for revising ISAE 3000 to clarify how some of the core underlying concepts should be applied in practice.

The IAASB commenced the project to revise ISAE 3000 in March 2009, in accordance with its commitment in its *Strategy and Work Program, 2009–2011*.

Significant Matters

Nature and Extent of Requirements

The IAASB's intention is for proposed ISAE 3000 to be a principles-based standard that is capable of being applied effectively to a broad range of underlying subject matters, and that will provide a basis for current and future subject-specific ISAEs. In determining the nature and extent of requirements to include in the proposed ISAE, all requirements in the Clarified ISAs were reviewed to determine whether an equivalent requirement, adapted as appropriate, should be reflected in the proposed revised ISAE. The IAASB acknowledged that inclusion of general requirements covering all significant areas of any assurance engagements other than audits or reviews of historical financial information would avoid the need for them to be included in topic-specific ISAEs and therefore unnecessary duplication of requirements across various ISAEs. It also acknowledged that doing so may also assist in the harmonization of practices around the world and improve the consistency and comparability of engagements undertaken in reference to ISAE 3000 alone.

At the same time, the IAASB recognized that ISAE 3000 should not be so unwieldy as to be impracticable or inappropriate to apply in light of the broad range of engagements and circumstances that it covers. Equally, the ISAE should facilitate innovation in the evolving field of assurance, not act as an impediment.

Proposed ISAE 3000 reflects those requirements that, in the IAASB's view, enable consistent high quality engagements while being sufficiently flexible to apply to the broad range of relevant engagements.

Levels of Assurance

Consistent with extant ISAE 3000, proposed ISAE 3000 recognizes that two levels of assurance are possible for engagements: reasonable assurance and limited assurance. Definitions for reasonable and limited assurance engagements are set out in paragraph 8(a)(i) of the proposed standard.

Like extant ISAE, the proposed definition of limited assurance explains its relationship to reasonable assurance. In particular, it explains that a limited assurance engagement is one in which the practitioner 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. Accordingly, the set of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement.

The proposed definition of a limited assurance engagement, however, also explains that in such engagements the set of procedures performed is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful to the intended users. The IAASB believes it is important to indicate a threshold level of assurance for limited assurance engagements, with that being made in reference to the intended users. Importantly, proposed ISAE 3000 introduces additional guidance indicating factors that are relevant to the practitioner's consideration, including recognizing that the level of assurance the practitioner plans is not ordinarily susceptible to quantification (see paragraph A2).

Proposed ISAE 3000 also introduces additional guidance designed to help readers better understand the differences between reasonable and limited assurance. Amongst other matters, the definition of a reasonable assurance engagement explains that the practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter; in comparison, the definition of a limited assurance engagement explains that the practitioner's conclusion is expressed in the form that conveys that, based on the procedures performed, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. This is in contrast to the use of "positive form" and "negative form" terminology in extant ISAE 3000, which feedback had indicated as being confusing and underplaying the value of the conclusion in a limited assurance engagement. (The matter of the form of the practitioner's conclusion in a limited assurance engagement is further discussed in the section "Limited Assurance Engagements" below.)

Other guidance included in proposed ISAE 3000 to help readers better understand the similarities and differences between the two levels of assurance includes the explicit statement that professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance; that is, for the same intended users, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement. This is because materiality is based on the information needs of intended users (see paragraph A84). Similarly, the suitability of criteria and the appropriateness of an underlying subject matter are not affected by the level of assurance (see paragraphs A9 and A38 respectively).

Limited Assurance Engagements

Proposed ISAE 3000 clarifies the requirements of the practitioner with respect to the procedures to be performed in a limited assurance engagement. Amongst other matters, the practitioner is

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required to determine the nature, timing and extent of the procedures to be performed to obtain a level of assurance that is meaningful to intended users. This determination is to be made based on the practitioner's understanding of the underlying subject matter, and other engagement circumstances, and the practitioner's consideration of areas where material misstatements are likely to arise (see paragraph 42). The IAASB concluded, however, that unlike in a reasonable assurance engagement, the practitioner is not required in all limited assurance engagements to obtain an understanding of internal control over the preparation of the subject matter information as a basis for identifying such areas (see paragraphs 37 and A93).

In the context of a limited assurance engagement, paragraph 42(c) of proposed ISAE 3000 also states:

If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

- (a) Conclude that the matter(s) is not likely to cause the subject matter information to be materially misstated; or
- (b) Determine that the matter(s) causes the subject matter information to be materially misstated.

The IAASB decided to use the word "may" in the proposed ISAE 3000 to describe the trigger point for performing additional procedures. The IAASB considered substituting "are" or "are likely to be" for the word "may" on the basis that "may" might set too low a threshold and would therefore lead to an excessive amount of work being performed for a limited assurance engagement. These alternatives were rejected because the IAASB did not consider it appropriate for a practitioner to report without having performed additional procedures when in fact the practitioner has cause to believe that the subject matter information may be materially misstated.

The IAASB's view is that the practitioner should perform additional procedures to the extent where the practitioner either is able to determine that the matter(s) causes the subject matter information to be materially misstated (paragraph 42(c)(ii)) or, alternatively, is able to conclude that the matter(s) is not likely to cause the subject matter information to be materially misstated (paragraph 42(c)(i)). This required response captures the key principle to be applied as a matter of public interest in undertaking any limited assurance engagement that whenever matters come to the practitioner's attention that cause the practitioner to believe the subject matter information may be materially misstated, the practitioner must pursue those matters.

In regard to paragraph 42(c)(i), the IAASB discussed defining or describing the meaning of "not likely" or "likely." It was decided that any definition or description that involved a quantitative approach would imply a level of precision that is rarely, if ever, achievable in practice.

In regard to paragraph 42(c)(ii), the practitioner needs to obtain sufficient appropriate evidence to support a conclusion in the assurance report that the subject matter information is materially misstated.

The IAASB has also explored whether the practitioner's conclusion should use wording that may be viewed as taking a more positive form. The IAASB deliberated on use of phrases such as "based on our work described in this report, the subject matter information is credible" or "... appears

credible,” or are “is worthy of belief,” or “plausible,” in place of the phrase “nothing has come to our attention that causes us to believe ...”

The IAASB concluded, taking account of input received from various stakeholders, that these alternative expressions may have the unintended result of causing users to misinterpret the basis of the practitioner’s conclusion on the subject matter information in a limited assurance engagement. The IAASB believes that the expression of the practitioner’s conclusion in the required form, taken in conjunction with the description of the work performed (as discussed below), is a critical element of the practitioner’s communications to users to convey the limits of the assurance engagement.

Describing the Practitioner’s Procedures in the Assurance Report

For both reasonable assurance and limited assurance engagements, the practitioner’s report is required to include an informative summary of the work performed as the basis for the practitioner’s conclusion to help intended users understand the nature of the assurance conveyed (see paragraphs 60(k) and A150–A153).

In the case of a limited assurance engagement, this summary is essential to understanding the assurance conveyed by the practitioner’s conclusion as the level of assurance that the practitioner obtains can vary depending on the procedures performed in the individual circumstances of the engagement. Therefore, it is important that the summary be written in an objective way that allows an appreciation by intended users of the nature, timing and extent of procedures performed as the basis for the practitioner’s conclusion. While it is difficult to describe the appropriate level of summation in a general way, in most cases it will not involve relating the entire work plan. Nevertheless, it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished. The IAASB welcomes views on whether an appropriate balance has been achieved in the proposed ISAE requirements and guidance material.

The IAASB also considered whether further requirements or guidance should be included regarding the level of detail for the summary of the practitioner’s procedures for a limited assurance engagement. The IAASB is of the view that more specific requirements or guidance are not appropriate given the wide variety of engagements to which ISAE 3000 applies.

The practitioner’s report in a limited assurance engagement also is also required to include a statement that the practitioner’s procedures are more limited than for a reasonable assurance engagement, and consequently they do not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement.

This additional requirement for limited assurance engagements reflects a perception in some quarters that the form of conclusion required for a limited assurance engagement (that is, “nothing came to our attention to cause us to believe the subject matter is materially misstated...”) may be misunderstood by some users as conveying a level of assurance that is equal to or even higher than that conveyed by a reasonable assurance opinion. The IAASB is of the view that requiring limited assurance reports to include the statement noted above mitigates the risk of this being the case.

Attestation and Direct Engagements

Proposed ISAE 3000 recognizes that an assurance engagement may be either an attestation engagement or a direct engagement. Definitions for both types of engagements are set out in paragraph 8(a)(ii) of the proposed standard. Attestation engagements are often more familiar, as audits and reviews of financial statements have been structured as attestation engagements, that is, where a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. However, direct engagements, including many performance or “value for money” audits, have become common in the public sector over recent decades and have been undertaken increasingly in the private sector also.

Due to the lack of familiarity of many with direct engagements, proposed ISAE 3000 introduces new application and other explanatory material addressing direct engagements. In addition to a definition of a direct engagement, that material includes an explanation of the nature of direct engagements, their differences from, and similarities to, attestation engagements, and how they differ from compilation engagements (see paragraphs A3-A6). Amongst other things, proposed ISAE 3000 notes that:

- (a) In a direct engagement, the practitioner measures or evaluates the underlying subject matter against the criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report;
- (b) In addition to measuring or evaluating the underlying subject matter, the practitioner in a direct engagement also applies assurance skills and techniques to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information is materially misstated. The practitioner often obtains 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; and
- (c) The value of a direct engagement lies in the combination of:
 - (i) The independence of the practitioner from the underlying subject matter, the engaging party, intended users and the responsible party. The practitioner is not independent of the subject matter information because the practitioner created that subject matter information; and
 - (ii) The assurance skills and techniques applied when measuring or evaluating the underlying subject matter, which results in the accumulation of evidence that is of a similar quantity and quality as for an attestation engagement. It is this obtaining of sufficient appropriate evidence that distinguishes a direct engagement from a mere compilation.

Proposed ISAE 3000 also includes material designed to clarify the application of the standard to direct engagements. In particular, it includes material regarding circumstances when the practitioner selects or develops the applicable criteria, including the need for the criteria to be suitable in these, as in all, assurance engagements. In such cases, the proposed standard notes that particular care may be needed to assess the suitability of the criteria in the circumstances of the engagement and indicates that it may be appropriate to discuss the choice of criteria with the appropriate party(ies) and disclose in the assurance report the basis for using the criteria the

practitioner has selected or developed (see paragraphs 8(c), 20(b)(ii), 30, 60(d), A9–A10, A42–A49, A68, A78 and A144). Guidance with respect to risks, objectivity, and the form of the practitioner’s conclusion are provided in paragraphs A12(b)(ii), A68 and A155–A156, respectively.

Direct Engagements: Misstatements and the Practitioner’s Objective

In a direct engagement, the practitioner measures or evaluates the underlying subject matter against the criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. Proposed ISAE 3000 defines, in paragraph 8(n), a misstatement as “a difference between the subject matter information and the proper measurement or evaluation (including where relevant, presentation and disclosure) of the underlying subject matter against the applicable criteria. This definition applies to all assurance engagements under the ISAEs, including those where the practitioner’s conclusion is the subject matter information. Misstatements can be intentional or unintentional, and include omissions.” Paragraph 6(a) specifies as an objective of the practitioner “to obtain either reasonable assurance or limited assurance, as appropriate, about whether the subject matter information (that is, the reported outcome of this measurement or evaluation of the underlying subject matter) is free from material misstatement.”

During the IAASB’s deliberations, a concern was expressed that, in the case of a direct engagement where the practitioner’s conclusion is the subject matter information, proposed ISAE 3000 makes no distinction between a misstatement in the subject matter information and a failure (in a reasonable assurance engagement) of the practitioner to detect a material misstatement. Accordingly, in these circumstances, proposed ISAE 3000 may be interpreted to mean that the practitioner’s objective is to obtain reasonable assurance that the assurance engagement has not failed to detect a material misstatement in the subject matter information that the practitioner presents.

The IAASB deliberated this concern and concluded that misstatements, as defined, can occur in both attestation and direct engagements because the outcome of the measurement or evaluation of the subject matter against the criteria can be wrong. The IAASB acknowledges that, in a direct engagement, a misstatement that arises from the practitioner’s measurement or evaluation cannot be distinguished from the failure by the practitioner to detect this misstatement. However, from a reader’s perspective, the subject matter information conveyed is nevertheless misstated. Therefore, the IAASB concluded that the definition of “misstatement” is appropriate for both types of assurance engagements.

Professional Accountants

Extant ISAE 3000 was written for application by professional accountants in public practice.¹ A professional accountant in public practice is defined² as a member of an IFAC member body. Membership in an IFAC member body carries with it obligations in regard to education, quality control and ethics, amongst others. Further, IFAC member bodies are subject to IFAC’s Member

¹ The purpose of extant ISAE 3000 is “to establish basic principles and essential procedures for ... professional accountants in public practice.”

² See the Glossary of Terms in the “Handbook of International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements” published by IFAC.

Body Compliance Program and Statements of Membership Obligations to assist in ensuring the quality of professional accountants' services.³

The IAASB considered whether the proposed ISAE 3000 should be written to include application by competent practitioners other than professional accountants in public practice, which may include, for example, public sector auditors. During the IAASB's deliberations, a view was expressed that the application of ISAE 3000 should be limited to professional accountants in public practice. This is because a practitioner, other than a professional accountant in public practice, might not have the necessary background, training and experience to be able to properly apply the standard. Further, application of ISAE 3000 by such practitioners may lead to inconsistencies in the application of the standard and confusion amongst users of assurance reports regarding the education, ethics, and quality control requirements of the practitioner, some of which may be subjective in nature. However, it was noted by the IAASB that the public interest would be better served if all competent practitioners were able to use ISAE 3000 to benchmark their work effort on assurance engagements. This includes practitioners other than professional accountants in public practice, who already may be performing assurance engagements of the type envisioned under ISAE 3000.

The IAASB concluded that the proposed revised ISAE should be written bearing in mind that it may be used by either a professional accountant in public practice or a competent practitioner other than a profession accountant in public practice. To ensure the public interest is served, the IAASB concluded that proposed ISAE 3000 should require:

- (a) The practitioner to comply with Parts A and B of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (the IESBA Code) related to assurance engagements, or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding (see paragraph 16);
- (b) The engagement partner: to be a member of a firm that applies ISQC 1,⁴ or other professional requirements, or requirements in laws or regulations, that are at least as demanding as ISQC 1; to have specialist knowledge and competence in assurance skills and techniques developed through extensive training and practical application; and to have sufficient competence in the underlying subject matter and its measurement or evaluation to accept responsibility for the assurance conclusion (see paragraph 25(a)-(c));
- (c) A statement in the assurance report that the practitioner who is performing the engagement is a member of a firm that is subject to ISQC 1, other professional requirements, or requirements in laws or regulations that are at least as demanding as ISQC 1 (see paragraph 60(i));
- (d) A statement in the assurance report that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding as Parts A and B of the IESBA Code related to assurance engagements (see paragraph 60 (i)); and

³ See the IFAC Compliance Program website at <http://www.ifac.org/ComplianceProgram/>.

⁴ ISQC 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

The proposed ISAE 3000 acknowledges that it is premised on the basis of (a) and (b) above. It explains that if a competent practitioner other than a profession accountant in public practice chooses to represent compliance with this or other ISAEs, it is important to recognize that ISAE 3000 includes requirements that reflect this premise (see paragraph 2 and 3).

Guidance to Enhance the Consistent Application of Proposed ISAE 3000

Proposed ISAE 3000 is written in the context of a wide array of underlying subject matters and engagement circumstances. Some such engagements are already being performed, for example, assurance on statements about the effectiveness of internal control. Others, however, are at present only developing, for example possible future engagements addressing integrated reporting or corporate social responsibility reporting.

The Appendix of proposed ISAE 3000 introduces material that illustrates the roles related to an assurance engagement. It describes the range of possible relationships between the responsible party, the measurer or evaluator, the engaging party, the practitioner and the intended users.

In addition, the application material in proposed ISAE 3000 includes additional guidance elaborating on the meaning of “assurance skill and techniques,” which are essential to the definition of practitioner (see paragraph A8). Guidance is also provided on the application of materiality in an assurance engagement, particularly with respect to qualitative information (see paragraphs A84-A91).

Historical Financial Information

In considering additional guidance in proposed ISAE 3000 to enhance its consistent application, the IAASB explored the circumstance when a reasonable assurance engagement addresses subject matter information that encompasses both historical financial information and other information and discussed the question of whether such an engagement should be conducted under ISAE 3000 or ISA 805.⁵ The IAASB concluded that a “bright line” distinction would neither be meaningful nor applicable in all cases, and that it is appropriate to allow the flexibility for this determination to be subject to the practitioner’s professional judgment in light of individual engagement circumstances.

Relationship between ISAE 3000 and the International Framework for Assurance Engagements

Extant ISAE 3000 stated that it is to be read in the context of the International Framework for Assurance Engagements (the Framework). Proposed ISAE 3000 includes all material in the extant Framework that is necessary for ISAE 3000 to be understood without reference to the Framework. In considering this approach, the IAASB recognizes that practitioners rarely access the Framework, preferring instead to refer to the content of ISAE 3000 for guidance when performing engagements.

The IAASB considered and rejected the idea of withdrawing the Framework, acknowledging that it plays a useful role in providing an overview of assurance concepts, without the burden of specific requirements.

⁵ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

Proposed Consequential Amendments

Accompanying the exposure of proposed ISAE 3000 are proposed consequential amendments to the International Framework for Assurance Engagements. These proposed amendments reflect the impact of changes proposed in ISAE 3000, thereby enabling readers to see how the proposed amendments to extant ISAE 3000 would affect that document. The proposed amendments do not change underlying concepts with the Framework except to clarify them where a particular need to do so has been identified through experience with ISAE 3000.

Consequential amendments are also proposed to ISAE 3402.⁶

The IAASB concluded that consequential amendments should not be proposed to ISAE 3400.⁷ ISAE 3400 had not been updated to take account of developments in other standards, including extant ISAE 3000, since it was issued. Proposed amendments may suggest that the standard has been subject to a more significant update than has been the case. The IAASB has included in its consultation on its Strategy and Work Program⁸ consideration of a project to determine whether to revise or withdraw ISAE 3400.

At present the IAASB has two other proposed ISAEs under development: ISAE 3410⁹ and ISAE 3420¹⁰. The IAASB has committed to including in the exposure draft of proposed revised ISAE 3000 any consequential amendments to proposed ISAE 3410 as a result of proposed changes to ISAE 3000. Proposed conforming amendments that may arise on proposed ISAE 3420 have not been included as the IAASB is actively considering comments received on exposure.

Project Timetable

Subject to comments received on exposure of proposed ISAE 3000, the IAASB intends to finalize the standard in 2012.

Guide for Respondents

The IAASB welcomes comments on all matters addressed in the exposure draft, including the proposed consequential amendments to the Framework, standards and proposed standards. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

Request for Examples of Assurance Engagements

The IAASB recognizes the increasing demand for assurance engagements under ISAE 3000 in several jurisdictions and its growing use in different engagement circumstances. To assist the IAASB in ensuring broad applicability and relevance of ISAE 3000, respondents are asked to provide examples of assurance engagements that are being undertaken in practice. Please include copies

⁶ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

⁷ ISAE 3400, *The Examination of Prospective Financial Information*

⁸ *Proposed Strategy and Work Program for 2012–2014*

⁹ ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

¹⁰ ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*. The comment period for ISAE 3420 closed on September 30, 2010.

of relevant assurance reports where possible; or alternatively describe the underlying subject matter, the subject matter information, the criteria, the procedures, whether the engagement was a direct engagement or an attestation engagement, and whether it was a limited assurance or reasonable assurance engagement.

Request for Specific Comments

The IAASB would welcome views on the following:

1. Do respondents believe that the nature and extent of requirements in proposed ISAE 3000 would enable consistent high quality assurance engagements while being sufficiently flexible given the broad range of engagements to which proposed ISAE 3000 will apply?
2. With respect to levels of assurance:
 - (a) Does proposed ISAE 3000 properly define, and explain the difference between, reasonable assurance engagements and limited assurance engagements?
 - (b) Are the requirements and other material in proposed ISAE 3000 appropriate to both reasonable assurance engagements and limited assurance engagements?
 - (c) Should the proposed ISAE 3000 require, for limited assurance, the practitioner to obtain an understanding of internal control over the preparation of the subject matter information when relevant to the underlying subject matter and other engagement circumstances?
3. With respect to attestation and direct engagements:
 - (a) Do respondents agree with the proposed changes in terminology from “assurance-based engagements” to “attestation engagements” as well as those from “direct-reporting engagements” to “direct engagements”?
 - (b) Does proposed ISAE 3000 properly define, and explain the difference between, direct engagements and attestation engagements?
 - (c) Are the objectives, requirements and other material in the proposed ISAE 3000 appropriate to both direct engagements and attestation engagements? In particular:
 - (i) In a direct engagement when the practitioner’s conclusion is the subject matter information, do respondents believe that the practitioner’s objective in paragraph 6(a) (that is, to obtain either reasonable assurance or limited assurance about whether the subject matter information is free of material misstatement) is appropriate in light of the definition of a misstatement (see paragraph 8(n))?
 - (ii) In some direct engagements the practitioner may select or develop the applicable criteria. Do respondents believe the requirements and guidance in proposed ISAE 3000 appropriately address such circumstances?

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4. With respect to describing the practitioner's procedures in the assurance report:
 - (a) Is the requirement to include a summary of the work performed as the basis for the practitioner's conclusion appropriate?
 - (b) Is the requirement, in the case of limited assurance engagements, to state that the practitioner's procedures are more limited than for a reasonable assurance engagement and consequently they do not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement, appropriate?
 - (c) Should further requirements or guidance be included regarding the level of detail needed for the summary of the practitioner's procedures in a limited assurance engagement?
5. Do respondents believe that the form of the practitioner's conclusion in a limited assurance engagement (that is, "based on the procedures performed, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated") communicates adequately the assurance obtained by the practitioner?
6. With respect to those applying the standard:
 - (a) Do respondents agree with the approach taken in proposed ISAE 3000 regarding application of the standard by competent practitioners other than professional accountants in public practice?
 - (b) Do respondents agree with proposed definition of "practitioner"?

Comments on Other Matters

The IAASB is also interested in comments on matters set out below.

- *Public Sector*—Recognizing the applicability of proposed ISAE 3000 to many assurance engagements in the public sector, the IAASB invites respondents from this sector to comment on the proposed ISAE, in particular on whether, in their opinion, the special considerations in the public sector environment have been dealt with appropriately in the proposed ISAE.
- *Small- and Medium-Sized Practices (SMPs) and Small- and Medium-Sized Entities (SMEs)*—Recognizing the applicability of proposed ISAE 3000 to assurance engagements on historical financial information in a SME context or by SMPs, the IAASB invites respondents from this constituency to comment on the proposed ISAE, in particular on the scalability of requirements.
- *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposed ISAE, in particular, on any foreseeable difficulties in applying it in a developing nation environment.

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- *Translations*—Recognizing that many respondents may intend to translate the final ISAE for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISAE.
- *Effective Date*—The IAASB believes that an appropriate effective date for the final ISAE 3000 would be 12–15 months after approval of the final standard but with earlier application permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISAE.

**Assurance Engagements other than Audits or Reviews of Historical Financial Information—
Proposed International Standard on Assurance Engagements 3000 (Revised)**

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Proposed International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, should be read in conjunction with the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*.

Introduction

1. This International Standard on Assurance Engagements (ISAE) deals with assurance engagements other than audits or reviews of historical financial information, which are dealt with in International Standards on Auditing (ISAs) and International Standards on Review Engagements (ISREs), respectively. (Ref: Para. A21–A22)
2. This ISAE is premised on the basis that:
 - (a) The members of the engagement team and the engagement quality control reviewer (if any) are subject to Parts A and B of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (the IESBA Code) related to assurance engagements, or other professional requirements, or requirements in laws or regulations, that are at least as demanding; and (Ref: Para. A28–A32)
 - (b) The practitioner who is performing the engagement is a member of a firm that is subject to ISQC 1, or other professional requirements, or requirements in laws or regulations, regarding the firm’s responsibility for its system of quality control, that are at least as demanding as ISQC 1.¹ (Ref: Para. A58–A59)
3. Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high quality assurance engagements. Professional accountants in public practice will be familiar with such requirements. If a competent practitioner other than a professional accountant in public practice chooses to represent compliance with this or other ISAEs, it is important to recognize that this ISAE includes requirements that reflect the premise in the preceding paragraph.

Relationship with other Pronouncements

4. The *International Framework for Assurance Engagements* (the Framework) identifies those engagements to which ISAEs apply. Where a subject matter-specific ISAE is relevant to the subject matter of a particular engagement that ISAE applies in addition to this ISAE. (Ref: Para. A21–A22)

Effective Date

5. This ISAE is effective for assurance engagements where the assurance report is dated on or after [date].

Objectives of the Practitioner

6. In conducting an assurance engagement, the objectives of the practitioner are:

¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- (a) To obtain either reasonable assurance or limited assurance, as appropriate, about whether the subject matter information (that is, the reported outcome of the measurement or evaluation of the underlying subject matter) is free from material misstatement;
 - (b) To express a conclusion regarding the outcome of the measurement or evaluation of the underlying subject matter through a written report that clearly conveys either reasonable or limited assurance and describes the basis for the conclusion; (Ref: Para. A1) and
 - (c) To communicate further as required by relevant ISAEs.
7. In all cases when reasonable assurance or limited assurance, as appropriate, cannot be obtained and a qualified conclusion in the practitioner’s assurance report is insufficient in the circumstances for purposes of reporting to the intended users, the ISAEs require that the practitioner disclaim a conclusion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable laws or regulations.

Definitions

8. For purposes of this ISAE and other ISAEs, unless indicated to the contrary, the following terms have the meanings attributed below.
- (a) Assurance engagement—An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria. Each assurance engagement is classified on two dimensions:
 - (i) Either a reasonable assurance engagement or a limited assurance engagement:
 - a. Reasonable assurance engagement—An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation of the underlying subject matter.
 - b. Limited assurance engagement—An assurance engagement in which the practitioner 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. The practitioner’s conclusion is expressed in a form that conveys that, based on the procedures performed, nothing has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated. The set of procedures performed in a limited assurance engagement is limited compared with that

necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful to the intended users. The limited assurance report communicates the limited nature of the assurance obtained. (Ref: Para. A2)

- (ii) Either an attestation engagement or a direct engagement: (Ref: Para. A3–A6)
 - a. Attestation engagement—An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner 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 practitioner in the assurance report. (Ref: Para. A3)
 - b. Direct engagement—An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. (Ref: Para. A4–A5)
- (b) Assurance skills and techniques—Those planning, evidence gathering, evidence evaluation and reporting skills and techniques demonstrated by an assurance practitioner which are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation. (Ref: Para. A8)
- (c) Criteria—The benchmarks used to measure or evaluate the underlying subject matter including, where relevant, those for presentation and disclosure. The “applicable criteria” are the criteria used for the particular engagement. (Ref: Para. A9–A10)
- (d) Engagement circumstances—The broad context defining the particular engagement, which includes the terms of the engagement, whether it is a reasonable assurance engagement or a limited assurance engagement, and a direct engagement or an attestation engagement, the characteristics of the underlying subject matter, the applicable measurement or evaluation criteria, the information needs of the intended users, relevant characteristics of the responsible party, the measurer or evaluator, and the engaging party and their environment, and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.
- (e) Engagement partner—The partner or other person in the firm who is responsible for the engagement and its performance, and for the assurance report that is

issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.²

- (f) Engagement risk—The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated. (Ref: Para. A11–A14)
- (g) Engaging party—The party(ies) that engages the practitioner to perform the assurance engagement. (Ref: Para. A15)
- (h) Engagement team—All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner’s external expert engaged by the firm or a network firm.
- (i) Evidence—Information used by the practitioner in arriving at the practitioner’s conclusion. Evidence includes both information contained in relevant information systems, if any, and other information. For purposes of the ISAEs:
 - (i) Sufficiency of evidence is the measure of the quantity of evidence. The quantity of the evidence needed is affected by the risks of material misstatement and also by the quality of such evidence.
 - (ii) Appropriateness of evidence is the measure of the quality of evidence; that is, its relevance and its reliability in providing support for the practitioner’s conclusion.
- (j) Firm—A sole practitioner, partnership or corporation or other entity of individual practitioners.³
- (k) Historical financial information—Information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- (l) Intended users—The individual(s) or organization(s), or class(es) thereof for whom the practitioner prepares the assurance report. (Ref: Para. A16–A18)
- (m) Measurer or evaluator—The party(ies) who measures or evaluates the underlying subject matter against the applicable criteria. (Ref: Para. A44)
- (n) Misstatement—A difference between the subject matter information and the proper measurement or evaluation (including, where relevant, presentation and disclosure) of the underlying subject matter against the applicable criteria. This definition applies to all assurance engagements under the ISAEs, including those where the practitioner’s

² “Engagement partner,” and “firm” should be read as referring to their public sector equivalents where relevant.

³ See footnote 2.

conclusion is the subject matter information. Misstatements can be intentional or unintentional, and include omissions. (Ref: Para. A7)

- (o) Misstatement of fact (with respect to other information)—Other information that is unrelated to matters appearing in the subject matter information or the assurance report that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing subject matter information.
- (p) Other information—Information (other than the subject matter information and the assurance report thereon) which is included, either by law, regulation or custom, in a document containing subject matter information and the assurance report thereon.
- (q) Practitioner—The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm) by applying assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement. In a direct engagement, the practitioner both measures or evaluates the underlying subject matter against the criteria and applies assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the outcome of that measurement or evaluation is free from material misstatement. Where this ISAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used.
- (r) Practitioner’s expert—An individual or organization possessing expertise in a field other than accounting or assurance, whose work in that field is used by the practitioner to assist the practitioner in obtaining sufficient appropriate evidence. A practitioner’s expert may be either a practitioner’s internal expert (who is a partner or staff, including temporary staff, of the practitioner’s firm or a network firm), or a practitioner’s external expert.
- (s) Professional judgment—The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.
- (t) Professional skepticism—An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.
- (u) Responsible party—The party(ies) responsible for the underlying subject matter. (Ref: Para. A34)
- (v) Risk of material misstatement—The risk that the subject matter information is materially misstated. (Ref: Para. A7)

- (w) Subject matter information—The outcome of the measurement or evaluation of the underlying subject matter against the applicable criteria, i.e., the information that results from applying the criteria to the underlying subject matter. (Ref: Para. A19)
 - (x) Underlying subject matter—The phenomenon that is measured or evaluated by applying criteria.
9. For the purposes of this ISAE and other ISAEs, references to “appropriate party(ies)” should be read hereafter as “the responsible party, the measurer or evaluator, or the engaging party, as appropriate.” (Ref: Para. A20, A34)

Requirements

Conduct of an Assurance Engagement in Accordance with ISAEs

Complying with Standards that are Relevant to the Engagement

10. The practitioner shall comply with this ISAE and any subject matter-specific ISAEs relevant to the engagement.
11. The practitioner shall not represent compliance with this or any other ISAE unless the practitioner has complied with the requirements of this ISAE and any other ISAE relevant to the engagement. (Ref: Para. A21–A22)

Text of an ISAE

12. The practitioner shall have an understanding of the entire text of an ISAE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A23–A27)

Complying with Relevant Requirements

13. Subject to the following paragraph, the practitioner shall comply with each requirement of this ISAE and any relevant subject matter-specific ISAE unless, in the circumstances of the engagement the requirement is not relevant because it is conditional and the condition does not exist.
14. In exceptional circumstances, the practitioner may judge it necessary to depart from a relevant requirement in an ISAE. In such circumstances, the practitioner shall perform alternative procedures to achieve the aim of that requirement. The need for the practitioner to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the aim of the requirement.

Failure to Achieve an Objective

15. If the objectives in this ISAE or a relevant subject matter-specific ISAE cannot be achieved, the practitioner shall evaluate whether this requires the practitioner to modify the practitioner’s conclusion or withdraw from the engagement (where withdrawal is possible under applicable laws or regulations). Failure to achieve the objectives in a relevant ISAE

represents a significant matter requiring documentation in accordance with paragraph 69 of this ISAE.

Ethical Requirements

16. The practitioner shall comply with Parts A and B of the IESBA Code related to assurance engagements, or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding. (Ref: Para. A28-A32, A57)

Acceptance and Continuance

17. The engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and assurance engagements have been followed by the firm, and shall determine that conclusions reached in this regard are appropriate.
18. The practitioner shall accept or continue an assurance engagement only when:
- (a) The practitioner has no reason to believe that relevant ethical requirements, including independence, will not be satisfied; (Ref: Para. A28-A32)
 - (b) The practitioner is satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities (see also paragraph 28); and
 - (c) The basis upon which the engagement is to be performed has been agreed, through:
 - (i) Establishing that the preconditions for an assurance engagement are present (see also paragraphs 20–21); and
 - (ii) Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner’s reporting responsibilities.
19. If the engagement partner obtains information that would have caused the firm to decline the engagement had that information been available earlier, the engagement partner shall communicate that information promptly to the firm, so that the firm and the engagement partner can take the necessary action (see also paragraph 22).

Preconditions for the Assurance Engagement

20. In order to establish whether the preconditions for an assurance engagement are present, the practitioner shall determine whether: (Ref: Para. A33)
- (a) The roles and responsibilities of the appropriate parties are suitable in the circumstances; and (Ref: Para. A34–A36)
 - (b) The engagement exhibits all of the following characteristics:
 - (i) The underlying subject matter is appropriate; (Ref: Para. A37–41)

- (ii) The criteria to be applied in the preparation of the subject matter information are suitable and will be available to the intended users; (Ref: Para. A42–A49)
 - (iii) The practitioner will have access to the evidence needed to support the practitioner’s conclusion; (Ref: Para. A50–A52)
 - (iv) The practitioner’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
 - (v) A rational purpose including, in the case of a limited assurance engagement, that a meaningful level of assurance can be obtained. (Ref: Para. A53)
21. If the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement unless required by laws or regulations to do so. However, an engagement conducted under such circumstances does not comply with ISAEs. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 or any other ISAE(s).
22. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner shall discuss the matter with the appropriate party(ies), and shall determine:
- (a) Whether the matter can be resolved;
 - (b) Whether it is appropriate to continue with the engagement; and
 - (c) Whether, and if so how, to communicate the matter in the assurance report.

Agreeing on the Terms of the Engagement

23. The practitioner shall agree the terms of the engagement with the engaging party. The agreed terms of the engagement shall be specified in sufficient detail in an engagement letter or other suitable form of written agreement, confirmation, or in laws or regulations. (Ref: Para. A54–A55)
24. On recurring engagements, the practitioner shall assess whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of the engagement.

Acceptance of a Change in the Terms of the Engagement

25. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. If such a change is made, the practitioner shall not disregard evidence that was obtained prior to the change. (Ref: Para. A56)

Assurance Report Prescribed by Laws or Regulations

26. In some cases, laws or regulations of the relevant jurisdiction prescribe the layout or wording of the assurance report. In these circumstances, the practitioner shall evaluate:
- (a) Whether intended users might misunderstand the assurance obtained from the engagement; and
 - (b) If so, whether additional explanation in the assurance report can mitigate possible misunderstanding.

If the practitioner concludes that additional explanation in the assurance report cannot mitigate possible misunderstanding, the practitioner shall not accept the engagement, unless required by laws or regulations to do so. An engagement conducted in accordance with such laws or regulations does not comply with ISAEs. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 or any other ISAE(s). (See also paragraph 61.)

Quality Control

Characteristics of the Engagement Partner

27. The engagement partner shall:
- (a) Be a member of a firm that applies ISQC 1, or other professional requirements, or requirements in laws or regulations, that are at least as demanding as ISQC 1; (Ref: Para. A57–A59)
 - (b) Have specialist knowledge and competence in assurance skills and techniques developed through extensive training and practical application; and (Ref: Para. A57 and A60)
 - (c) Have sufficient competence in the underlying subject matter and its measurement or evaluation to accept responsibility for the assurance conclusion. (Ref: Para. A61–A62)

Assignment of the Team

28. The engagement partner shall: (Ref: Para. A63)
- (a) Be satisfied that the engagement team and any practitioner’s external experts collectively have the appropriate competence and capabilities to: (Ref: Para. A64–A65)
 - (i) Perform the engagement in accordance with relevant standards and applicable legal and regulatory requirements; and
 - (ii) Enable an assurance report that is appropriate in the circumstances to be issued.
 - (b) Be satisfied that the engagement team will be able to be involved in the work of:

- (i) A practitioner's expert where the work of that expert is to be used; and (Ref: Para. A64–A65)
- (ii) Another practitioner where the work of that practitioner is to be used, (Ref: Para. A66)

to an extent that is sufficient to accept responsibility for the conclusion on the subject matter information.

Responsibilities of the Engagement Partner

29. The engagement partner shall take responsibility for the overall quality on the engagement. This includes responsibility for:
- (a) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements;
 - (b) Directing, supervising, planning and performing the engagement to achieve compliance with professional standards and applicable legal and regulatory requirements;
 - (c) Reviews being performed in accordance with the firm's review policies and procedures, and reviewing the engagement documentation on or before the date of the assurance report; (Ref: Para. A67)
 - (d) Maintaining appropriate engagement documentation to provide evidence of achievement of the practitioner's objectives, and that the engagement was performed in accordance with relevant ISAEs and relevant legal and regulatory requirements; and
 - (e) The engagement team undertaking appropriate consultation on difficult or contentious matters.
30. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A68)
31. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the assurance engagement.

Engagement Quality Control Review

32. For those engagements, if any, for which a quality control review is required by laws or regulations or for which the firm has determined that an engagement quality control review is required:

- (a) The engagement partner shall take responsibility for discussing significant matters arising during the engagement with the engagement quality control reviewer, and not dating the assurance report until completion of that review; and
- (b) The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the assurance report. This evaluation shall involve. (Ref: Para. A69)
 - (i) Discussion of significant matters with the engagement partner;
 - (ii) Review of the subject matter information and the proposed assurance report;
 - (iii) Review of selected engagement documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
 - (iv) Evaluation of the conclusions reached in formulating the assurance report and consideration of whether the proposed assurance report is appropriate.

Professional Skepticism and Professional Judgment

- 33. The practitioner shall plan and perform an engagement with professional skepticism. (Ref: Para. A70–A74)
- 34. The practitioner shall exercise professional judgment in planning and performing an assurance engagement. (Ref: Para. A75–A79)

Planning and Performing the Engagement

Planning

- 35. The practitioner shall plan the engagement so that it will be performed in an effective manner, including setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of planned procedures that are required to be carried out in order to achieve the objective of the engagement. (Ref: Para. A80–A83)

Materiality

- 36. The practitioner shall consider materiality when: (Ref: Para. A84–A91)
 - (a) Planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures; and
 - (b) Evaluating whether the subject matter information is free from misstatement.

Obtaining Evidence

- 37. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to design and perform procedures in order to achieve

the objectives of the engagement. In the case of a reasonable assurance engagement, the practitioner's understanding shall include an understanding of internal control over the preparation of the subject matter information when relevant to the underlying subject matter and other engagement circumstances. (Ref: Para. A92–A93)

38. When designing and performing procedures, the practitioner shall consider the relevance and reliability of the information to be used as evidence. If:
- (a) Evidence obtained from one source is inconsistent with that obtained from another; or
 - (b) The practitioner has doubts over the reliability of information to be used as evidence,

the practitioner shall determine what changes or additions to procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the engagement.

Assurance Procedures

39. The practitioner shall apply assurance skills and techniques as part of an iterative, systematic engagement process.
40. The practitioner shall apply professional judgment to determine the nature, timing and extent of procedures in accordance with the circumstances of the engagement. (Ref: Para. A94–A95)
41. In a reasonable assurance engagement the practitioner shall:
- (a) Based on the practitioner's understanding (see paragraph 37), identify and assess the risks of material misstatement;
 - (b) Respond to assessed risks, by (i) developing and implementing overall responses, and (ii) determining the nature, timing and extent of procedures that are clearly responsive to the assessed risks, and performing those procedures. Those procedures shall involve substantive procedures (including obtaining corroborating information from independent sources, when relevant), and when relevant to the engagement circumstances, tests of the operating effectiveness of controls over the measurer or evaluator's preparation of the subject matter information (in the case of an attestation engagement) or over data used by the practitioner in measuring or evaluating the underlying subject matter (in a direct engagement); and
 - (c) Based on the procedures performed and the evidence obtained, evaluate before the completion of the engagement whether the practitioner's assessment of the risks that the subject matter information may be materially misstated remains appropriate. (Ref: Para. A96)
42. In a limited assurance engagement, the practitioner shall:
- (a) Based on the practitioner's understanding (see paragraph 37) and consideration of areas where material misstatements are likely to arise, determine the nature,

timing and extent of procedures to be performed to obtain a level of assurance that is meaningful to the intended users; (Ref: Para. A2)

- (b) Perform those procedures; and
 - (c) If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to: (Ref: Para. A96–A98)
 - (i) Conclude that the matter(s) is not likely to cause the subject matter information to be materially misstated; or
 - (ii) Determine that the matter(s) causes the subject matter information to be materially misstated.
43. The practitioner shall accumulate uncorrected misstatements identified during the engagement other than those that are clearly trivial. (Ref: Para. A99)
44. The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement (including whether it is a reasonable assurance or limited assurance engagement) and, if necessary in the circumstances, attempt to obtain further evidence. The practitioner shall consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria. If the practitioner is unable to obtain necessary further evidence, the practitioner shall consider the implications for the practitioner’s conclusion in paragraph 56. (Ref: Para. A100–A105)

Work Performed by a Practitioner’s Expert

45. When the work of a practitioner’s expert is to be used, the practitioner shall also: (Ref: Para. A106–A110)
- (a) Evaluate whether the practitioner’s expert has the necessary competence, capabilities and objectivity for the practitioner’s purposes. In the case of a practitioner’s external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert’s objectivity; (Ref: Para. A111–A114)
 - (b) Obtain a sufficient understanding of the field of expertise of the practitioner’s expert; (Ref: Para. A115–A116)
 - (c) Agree with the practitioner’s expert on the nature, scope and objectives of that expert’s work; and (Ref: Para. A117–118)
 - (d) Evaluate the adequacy of the practitioner’s expert’s work for the practitioner’s purposes. (Ref: Para. A119–A120)

Work Performed by Another Practitioner or an Internal Auditor

46. When the work of another practitioner or an internal auditor is to be used, the practitioner shall be satisfied that work is adequate for the practitioner's purposes. (Ref: Para. A121)

Written Representations

47. The practitioner shall request from the appropriate party(ies) a written representation that it has provided the practitioner with all information of which the appropriate party(ies) is aware that is relevant to the engagement. (Ref: Para. A51–A52 and A122–A126)
48. In an attestation engagement, the practitioner shall request from the measurer or evaluator a written representation about the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information.
49. In a direct engagement, the practitioner shall request from the responsible party a written representation that acknowledges responsibility for the underlying subject matter unless that responsibility is prescribed by laws or regulations in sufficient detail.
50. When written representations relate to matters that are material to the subject matter information, the practitioner shall:
- (a) Evaluate their reasonableness and consistency with other evidence obtained, including other representations (oral or written); and
 - (b) Consider whether those making the representations can be expected to be well informed on the particular matters.
51. The date of the written representations shall be as near as practicable to, but not after, the date of the assurance report.

Requested Written Representations Not Provided or Not Reliable

52. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values or diligence of those providing the written representations, or that the written representations are not reliable, the practitioner shall: (Ref: Para. A126)
- (a) Discuss the matter with the appropriate party(ies);
 - (b) Reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations (oral or written) and evidence in general; and
 - (c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.

Considering Subsequent Events

53. The practitioner has no responsibility to perform any procedures regarding the subject matter information after the date of the assurance report. Nevertheless, when relevant to

the engagement, the practitioner shall consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend 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 practitioner's conclusion. (Ref: Para. A127–A128)

Other Information

54. When documents containing the subject matter information and the assurance report thereon include other information, the practitioner shall read that other information to identify material inconsistencies, if any, with the subject matter information or the assurance report and, if on reading that other information, the practitioner: (Ref: Para. A129)

- (a) Identifies a material inconsistency between that other information and the subject matter information or the assurance report; or
- (b) Becomes aware of a material misstatement of fact in that other information that is unrelated to matters appearing in the subject matter information or the assurance report,

the practitioner shall discuss the matter with the appropriate party(ies) and take further action as appropriate.

Description of Applicable Criteria

55. The practitioner shall evaluate whether the subject matter information adequately refers to or describes the applicable criteria. (Ref: Para. A130–A132)

Forming the Assurance Conclusion

56. The practitioner shall form a conclusion about whether the reported outcome of the measurement or evaluation of the underlying subject matter is free from material misstatement. In forming that conclusion, the practitioner shall consider: (Ref: Para. A1 and A133–A134)

- (a) The practitioner's conclusion in paragraph 44 regarding the sufficiency and appropriateness of evidence obtained; and
- (b) An evaluation of whether uncorrected misstatements are material, individually or in aggregate. (Ref: Para. A99)

57. If the practitioner is unable to obtain sufficient appropriate evidence, a scope limitation exists and the practitioner shall express a qualified conclusion, disclaim a conclusion, or withdraw from the engagement, where withdrawal is possible under applicable laws or regulations, as appropriate. (Ref: Para. A135–A137)

Preparing the Assurance Report

58. The assurance report shall be in writing and shall contain a clear expression of the practitioner's conclusion that conveys the assurance obtained about the subject matter information. (Ref: Para. A138–A140)
59. The practitioner's conclusion on the subject matter information shall be clearly separated from any emphasis of matter, findings, recommendations or similar information included in the assurance report, and the wording used shall make it clear that findings, recommendations or similar information is not intended to detract from the practitioner's conclusion. (Ref: Para. A138–A140)

Assurance Report Content

60. The assurance report shall include at a minimum the following basic elements:
- (a) A title that clearly indicates the report is an independent assurance report. (Ref: Para. A141)
 - (b) An addressee. (Ref: Para. A142)
 - (c) An identification or description of the subject matter information and, when appropriate, the underlying subject matter. In the case of a direct engagement, this may be reflected in the description of the findings and basis for the practitioner's conclusion in the assurance report. When the practitioner's conclusion is worded in terms of a statement made by the measurer or evaluator, that statement shall be appended to the assurance report, reproduced in the assurance report or referenced therein to a source that is available to the intended users. (Ref: Para. A143)
 - (d) Identification of the criteria. (Ref: Para. A144)
 - (e) Where appropriate, a description of any significant, inherent limitations associated with the measurement or evaluation of the underlying subject matter against the criteria. (Ref: Para. A145)
 - (f) When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose. (Ref: Para. A146–A147)
 - (g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the practitioner's responsibilities. (Ref: Para. A148)
 - (h) A statement that the engagement was performed in accordance with this ISAE or, where there is a subject matter specific ISAE, that ISAE. (Ref: Para. A149)
 - (i) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in laws or regulations that are at least as demanding as ISQC 1.

- (i) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding as Parts A and B of the IESBA Code related to assurance engagements.
- (k) An informative summary of the work performed as the basis for the practitioner's conclusion, recognizing in the case of a limited assurance engagement, that an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance conveyed by the practitioner's conclusion. In a limited assurance engagement the summary of the work performed shall state that the practitioner's procedures are more limited than for a reasonable assurance engagement, and consequently they do not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement. (Ref: Para. A150–A153)
- (l) The practitioner's conclusion: (Ref: Para. A1, A154–A155)
 - (i) Where appropriate, the conclusion shall inform the intended users of the context in which the practitioner's conclusion is to be read. (Ref: Para. A158)
 - (ii) In a reasonable assurance engagement, the conclusion shall be expressed in the form of an opinion.
 - (iii) In a limited assurance engagement, the conclusion shall be expressed in a form that conveys that, based on the procedures performed, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. (Ref: Para. A157–A158)
 - (iv) Where the practitioner expresses a modified conclusion, the assurance report shall contain a clear description of the matter(s) giving rise to the modification.
- (m) The practitioner's signature. (Ref: Para. A159)
- (n) The date of the assurance report. The assurance report shall be dated no earlier than the date on which the practitioner has obtained the evidence on which the practitioner's conclusion is based, including: (Ref: Para. A160)
 - (i) In the case of a attestation engagement, evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information; and
 - (ii) In the case of direct engagement, receipt of the written representation required by paragraph 49.
- (o) The location in the jurisdiction where the practitioner practices.

Reference to the Practitioner’s Expert in the Assurance Report

61. If the practitioner refers to the work of a practitioner’s expert in the assurance report, the wording of that report shall not imply that the practitioner’s responsibility for the conclusion expressed in that report is reduced because of the involvement of that expert. (Ref: Para. A161–A163)

Assurance Report Prescribed by Laws or Regulations

62. If the practitioner is required by laws or regulations to use a specific layout or wording of the assurance report, the assurance report shall refer to this or other ISAEs only if the assurance report includes, at a minimum, each of the elements identified in paragraph 60.

Unmodified and Modified Conclusions

63. The practitioner shall express an unmodified conclusion when the practitioner concludes:
- (a) In the case of a reasonable assurance engagement, that the subject matter information is prepared, in all material respects, in accordance with the applicable criteria; or
 - (b) In the case of a limited assurance engagement, that, based on the procedures performed, nothing has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria.
64. The practitioner shall express a modified conclusion when the following circumstances exist and, in the practitioner’s professional judgment, the effect of the matter is or may be material:
- (a) When a scope limitation exists (see paragraph 57). In such cases, the practitioner shall express a qualified conclusion or a disclaimer of conclusion.
 - (b) When:
 - (i) The practitioner’s conclusion is worded in terms of a statement made by the measurer or evaluator, and that statement is incorrect, in a material respect; or
 - (ii) The practitioner’s conclusion is worded in terms of the underlying subject matter and the criteria, and the subject matter information is not free from material misstatement. (Ref: Para. A164–A165)

In such cases, the practitioner shall express a qualified or adverse conclusion.

65. The practitioner shall express a qualified conclusion when the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion is expressed as being “except for” the effects, or possible effects, of the matter to which the qualification relates. (Ref: Para. A165)

66. If the practitioner expresses a modified conclusion because of a scope limitation but is also aware of a matter(s) that causes the subject matter information to be materially misstated, the practitioner shall include in the assurance report a clear description of both the scope limitation and the matter(s) that causes that the subject matter information to be materially misstated.
67. In those cases where the practitioner’s unqualified conclusion would be worded in terms of a statement made by the measurer or evaluator, and that statement has identified and properly described that the subject matter information is materially misstated, the practitioner shall either:
- (a) Express a qualified or adverse conclusion worded in terms of the underlying subject matter
 - (b) If specifically required by the terms of the engagement to word the conclusion in terms of statement made by the measurer or evaluator, express an unqualified conclusion but emphasize the matter by specifically referring to it in the assurance report.

Other Communication Responsibilities

68. The practitioner shall consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the practitioner that should be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others. (Ref: Para. A166)

Documentation

69. The practitioner shall prepare on a timely basis engagement documentation that provides a record of the basis for the assurance report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand: (Ref: Para. A167–A175)
- (a) The nature, timing and extent of the procedures performed to comply with relevant ISAEs and applicable legal and regulatory requirements;
 - (b) The results of the procedures performed, and the evidence obtained; and
 - (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
70. If the practitioner identifies information that is inconsistent with the practitioner’s final conclusion regarding a significant matter, the practitioner shall document how the practitioner addressed the inconsistency.

Application and Other Explanatory Material

Objectives of the Practitioner

The Practitioner's Conclusion (Ref: Para. 6(b), 56, 60(l))

A1. 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 assurance, each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement.

Definitions

A Level of Assurance that is Meaningful to the Intended Users (Ref: Para. 8(a)(i)b, 42(a))

A2. The level of assurance the practitioner plans to obtain is not ordinarily susceptible to quantification, and whether it is meaningful to the intended users is a matter of professional judgment for the practitioner to determine in the circumstances of the engagement, including the practitioner's perception of the information needs of intended users. In a limited assurance engagement, the practitioner performs a set of procedures that is limited compared with that necessary in a reasonable assurance engagement but is, nonetheless, planned to obtain a level of assurance that is meaningful to the intended users (see also paragraphs A16–A18, and A85). Factors that are relevant to consider may include, for example:

- The characteristics of the underlying subject matter and the applicable criteria, and whether there are any relevant subject matter-specific ISAEs.
- Instructions or other indications from the engaging party about the nature of the assurance the engaging party is seeking the practitioner to obtain. For example, the terms of the engagement may stipulate particular procedures that the engaging party considers necessary or particular aspects of the subject matter information the engaging party would like the practitioner to focus procedures on.
- Whether the practitioner is able to design procedures to address the material misstatements that are likely to arise in the subject matter information.
- Whether the nature and extent of planned procedures is sufficient for the practitioner to conclude about those aspects of the subject matter information to which the procedures are directed.
- Generally accepted practice, if it exists, with respect to assurance engagements for the particular subject matter information, or similar or related subject matter information.

Attestation Engagements and Direct Engagements (Ref: Para. 8(a)(ii), Appendix)

A3. In an attestation engagement, the measurer or evaluator, who is not the practitioner, measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information. Subject matter information can fail to be properly

expressed in the context of the underlying subject matter and the criteria, and can therefore be misstated, potentially to a material extent. The role of the practitioner in an attestation engagement is to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information, as prepared by the measurer or evaluator, is free from material misstatement.

- A4. In a direct engagement, the practitioner measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information. In some cases, the practitioner's conclusion is the subject matter information. Depending on the underlying subject matter:
- (a) The outcome of the measurement or evaluation in a direct engagement may be similar to a report or statement prepared by the measurer or evaluator in an attestation engagement. In other circumstances, however, the outcome, that is, the subject matter information, may be reflected in the description of the findings and basis for the practitioner's conclusion in the report (see also paragraph A140); and
 - (b) The practitioner may use data collected or compiled by others. For example, the data may come from an information system maintained by the responsible party.
- A5. In addition to measuring or evaluating the underlying subject matter, the practitioner in a direct engagement also applies assurance skills and techniques to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information is materially misstated. The practitioner often obtains 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.
- A6. In a direct engagement the value lies in the combination of:
- (a) The independence of the practitioner from the underlying subject matter, the engaging party, intended users and the responsible party. The practitioner is not independent of the subject matter information because the practitioner created that subject matter information; and
 - (b) The assurance skills and techniques applied when measuring or evaluating the underlying subject matter, which results in the accumulation of evidence that is of a similar quantity and quality as for an attestation engagement. It is this obtaining of sufficient appropriate evidence that distinguishes a direct engagement from a mere compilation. To illustrate this point, if a practitioner were compiling an entity's greenhouse gas statement, the practitioner would not, for example, test the calibration of monitoring devices. In a direct engagement, however, the practitioner would, where relevant, either calibrate monitoring devices as part of the measurement process, or test the calibration of monitoring devices performed by others to the same extent as would be the case if the engagement were an attestation engagement.

The Risk of Material Misstatement (Ref: Para. 8(v))

- A7. In the ISAEs, the potential for the measurement or evaluation of an aspect of the subject matter information to be different from a proper measurement or evaluation of that aspect using the applicable criteria is known as the risk of material misstatement for both attestation engagements and direct engagements.

Assurance Skill and Techniques (Ref: Para. 8(b))

- A8. Assurance skills and techniques include: application of professional skepticism and professional judgment to planning and performing an assurance engagement, including obtaining and evaluating evidence; understanding information systems and the role and limitations of internal control; linking the consideration of materiality and engagement risks to the nature, timing and extent of procedures; applying procedures including inquiry, inspection, re-calculation, re-performance, observation, confirmation, and analytical procedures; systematic documentation practices; and, assurance report-writing skills.

Criteria (Ref: Para. 8(c), Appendix)

- A9. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same underlying subject matter there can be different criteria, which will yield a different measurement or evaluation. For example, one measurer or evaluator might select the number of customer complaints resolved to the acknowledged satisfaction of the customer for the underlying subject matter of customer satisfaction; another measurer or evaluator might select the number of repeat purchases in the three months following the initial purchase. The suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa.
- A10. In some direct engagements, the applicable criteria may be determined by another party. In other direct engagements, however, the practitioner selects or develops the applicable criteria. When this is the case, and more than one set of relevant established criteria exist or the practitioner develops the applicable criteria, particular care may be needed to assess their suitability in the circumstances of the engagement since there is no independent review of practitioner's professional judgment. It may be appropriate in such cases to discuss the choice of criteria with the appropriate party(ies) and disclose in the assurance report the basis for using a particular set of criteria the practitioner has selected or developed. (See also paragraph A68.)

Engagement Risk (Ref: Para. 8(f))

- A11. Engagement risk does not refer to or include the practitioner's business risks such as loss from litigation, adverse publicity, or other events arising in connection with a subject matter information reported on.

A12. In general, 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) Risks that the practitioner does not directly influence, which may consist of:
 - (i) The susceptibility of the subject matter information to a material misstatement before consideration of any related controls (inherent risk); and
 - (ii) The risk that a material misstatement that occurs in the subject matter information will not be prevented, or detected and corrected, on a timely basis by the appropriate party(ies)'s internal control (control risk); and
- (b) Risks that the practitioner does directly influence, which may consist of:
 - (i) The risk that the procedures performed by the practitioner will not detect a material misstatement (detection risk); and
 - (ii) In the case of a direct engagement, the risks associated with the practitioner's measurement or evaluation of the underlying subject matter against the applicable criteria.

A13. The degree to which each of these components is relevant to the engagement is affected by the engagement circumstances, in particular:

- The nature of the underlying subject matter and the subject matter information. For example, the concept of control risk may be more useful when the underlying subject matter relates to the preparation of information about an entity's performance than when it relates to information about the effectiveness of a controls or the existence of a physical condition.
- Whether a reasonable assurance or a limited assurance engagement is being performed. For example, in limited assurance attestation engagements the practitioner may often decide to obtain evidence by means other than tests of controls, in which case consideration of control risk may be less relevant than in a reasonable assurance attestation engagement on the same subject matter information.
- Whether it is a direct engagement or an attestation engagement. As noted in the previous paragraph, while the concept of control risk is relevant to attestation engagements, the broader concept of measurement or evaluation risk is relevant to direct engagements.

The consideration of risks is a matter of professional judgment, rather than a matter capable of precise measurement.

A14. Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore, "reasonable assurance" is less than absolute assurance, as a result of factors such as the following:

- 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.
- The use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
- In some cases, the characteristics of the underlying subject matter when evaluated or measured against the applicable criteria.

The Engaging Party (Ref: Para. 8(g), Appendix)

A15. The engaging party may be, under different circumstances, management or those charged with governance of the responsible party, a legislature, the intended users, the measurer or evaluator (other than in a direct engagement, where the practitioner is the measurer or evaluator), or a different third party.

Intended Users (Ref: Para. 8(l), Appendix)

A16. In some cases there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly where a large number of people have access to it. In such cases, particularly where possible readers are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by laws or regulations.

A17. Intended users or their representatives may be directly involved with the practitioner and the responsible party (and the engaging party if different) in determining the requirements of the engagement. Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting findings based upon the procedures, rather than a conclusion):

- (a) The practitioner is responsible for determining the nature, timing and extent of procedures; and
- (b) The practitioner may need to perform additional procedures if information comes to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based (see paragraph A96–A98).

A18. In some cases, intended users (for example, bankers and regulators) impose a requirement on, or request the appropriate party(ies) to arrange for an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a specific purpose, paragraph 60(f) requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this

may be achieved by restricting the distribution or use of the assurance report (see paragraph A146–A147).

Subject Matter Information (Ref: Para. 8(w), Appendix)

- A19. In some cases, the subject matter information may be a statement that evaluates an aspect of a process, or of performance or compliance, in relation to the criteria. For example, “ABC’s internal control operated effectively in terms of XYZ criteria during the period” or “ABC’s governance structure conformed with XYZ criteria during the period ...”

The Appropriate Party(ies) (Ref: Para. 9, Appendix)

- A20. The roles played by the responsible party, the measurer or evaluator, and the engaging party can vary (see paragraph A34). Also, management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible for ISAEs to specify for all engagements the person(s) with whom the practitioner is to inquire of, request representations from, or otherwise communicate with in all circumstances. In some cases, for example, when the appropriate party(ies) is only part of a complete legal entity, identifying the appropriate management personnel or those charged with governance with whom to communicate will require the exercise of professional judgment to determine which person(s) have the appropriate responsibilities for and knowledge of the matters concerned.

Conduct of an Assurance Engagement in Accordance with ISAEs

Complying with Standards that are Relevant to the Engagement (Ref: Para. 1, 4, 11)

- A21. This ISAE includes requirements that apply to all assurance engagements (other than audits or reviews of historical financial information), including engagements in accordance with a subject matter-specific ISAE. In some cases, a subject matter-specific ISAE is also relevant to the engagement. A subject matter-specific ISAE is relevant to the engagement when the ISAE is in effect, the subject matter of the ISAE is relevant to the engagement, and the circumstances addressed by the ISAE exist.
- A22. The ISAs and ISREs have not been written for assurance engagements other than audits and reviews of historical financial information, and do not apply to such engagements. They may, however, provide guidance in relation to the assurance process generally for practitioners undertaking an assurance engagement in accordance with this ISAE.

Text of an ISAE (Ref: Para. 12)

- A23. ISAEs contain the objectives of the practitioner in following the ISAEs, and requirements designed to enable the firm to meet those objectives. In addition, they contain related guidance in the form of application and other explanatory material, introductory material that provides context relevant to a proper understanding of the ISQC, and definitions.
- A24. The objectives in an ISAE provide the context in which the requirements of the ISAE are set, and are intended to assist in:

- (a) Understanding what is to be accomplished; and
- (b) Deciding whether more needs to be done to achieve the objectives.

The proper application of the requirements of an ISAE by the practitioner is expected to provide a sufficient basis for the practitioner's achievement of the objectives. However, because the circumstances of assurance engagements vary widely and all such circumstances cannot be anticipated in the ISAEs, the practitioner is responsible for determining the procedures necessary to fulfill the requirements of relevant ISAEs and to achieve the objectives stated therein. In the circumstances of an engagement, there may be particular matters that require the practitioner to perform procedures in addition to those required by relevant ISAEs to meet the objectives specified in those ISAEs.

- A25. The requirements of ISAEs are expressed using "shall."
- A26. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
- (a) Explain more precisely what a requirement means or is intended to cover; and
 - (b) Include examples that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in an ISAE. Where appropriate, additional considerations specific to public sector audit organizations or smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in the ISAEs. They do not, however, limit or reduce the responsibility of the practitioner to apply and comply with the requirements in an ISAE.

- A27. Definitions are provided in the ISAEs to assist in the consistent application and interpretation of the ISAEs, and are not intended to override definitions that may be established for other purposes, whether by laws, regulations or otherwise.

Ethical Requirements (Ref: Para. 2(a), 16, 18(a))

- A28. Part A of the IESBA Code establishes the following fundamental principles with which the practitioner is required to comply:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behavior.
- A29. Part A of the IESBA Code also provides a conceptual framework for professional accountants to apply to:

- (a) Identify threats to compliance with the fundamental principles. Threats fall into one or more of the following categories:
- (i) Self-interest;
 - (ii) Self-review;
 - (iii) Advocacy;
 - (iv) Familiarity; and
 - (v) Intimidation;
- (b) Evaluate the significance of the threats identified; and
- (c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level. Safeguards are necessary when the professional accountant determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

A30. Part B of the IESBA Code describes how the conceptual framework in Part A applies in certain situations to professional accountants in public practice, including:

- Professional appointment
- Conflicts of interest
- Second opinions
- Fees and other types of remuneration
- Marketing professional services
- Gifts and hospitality
- Custody of client assets
- Objectivity
- Independence.

A31. The IESBA Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism. Matters addressed in IESBA Code with respect to independence include:

- Financial interests
- Loans and guarantees

- Business relationships
- Family and personal relationships
- Employment with assurance clients
- Recent service with an assurance client
- Serving as a director or officer of an assurance client
- Long association of senior personnel with assurance clients
- Provision of non-assurance services to assurance clients
- Fees (relative size, overdue, and contingent fees)
- Gifts and hospitality
- Actual or threatened litigation.

A32. Professional requirements, or requirements imposed by laws or regulations, are at least as demanding as Parts A and B of the IESBA Code related to assurance engagements when they address all the matters referred to in paragraphs A28–A31 and impose obligations that achieve the aims of the requirements set out in Parts A and B of the IESBA Code related to assurance engagements.

Acceptance and Continuance

Preconditions for the Engagement (Ref: Para. 20)

A33. In a public sector environment, some of the preconditions for an assurance engagement may be assumed to be present, for example:

- (a) The roles and responsibilities of public sector audit organizations and the government entities scoped into assurance engagements are assumed to be appropriate because they are generally set out in legislation;
- (b) Public sector audit organizations' right of access to the information necessary to perform the engagement is often set out in legislation;
- (c) The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is generally required by legislation to be contained in a written report; and
- (d) A rational purpose is generally present because the engagement is set out in legislation.

Roles and Responsibilities (Ref: Para. 8(u), 9, 20(a), Appendix)

A34. All assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. Depending on the engagement circumstances, the roles of measurer or evaluator and of the engaging party may also be performed by one

of these parties or by another party(ies). See the Appendix for a discussion of how each of these roles relate to an assurance engagement.

- A35. Evidence that the appropriate relationship exists with respect to responsibility for the underlying subject matter may be obtained through an acknowledgement provided by the responsible party. Such an acknowledgement also establishes a basis for a common understanding of the responsibility of the responsible party and the practitioner. A written acknowledgement is the most appropriate form of documenting the responsible party's understanding. In the absence of a written acknowledgement of responsibility, it may still be appropriate for the practitioner to accept the engagement if, for example, other sources, such as legislation or a contract, indicate responsibility. In other cases, it may be appropriate to decline the engagement depending on the circumstances, or to disclose the circumstances in the assurance report.
- A36. The measurer or evaluator in an attestation engagement is responsible for having a reasonable basis for the subject matter information. What constitutes a reasonable basis will depend on the nature of the underlying subject matter and other engagement circumstances. In some cases, a formal process with extensive internal controls may be needed to provide the measurer or evaluator with reasonable basis that the outcome of their measurement or evaluation of the underlying subject matter is free from material misstatement. The fact that the practitioner will report on the subject matter information is not a substitute for the measurer or evaluator's own processes to have a reasonable basis for the subject matter information. In a direct engagement, the process of measuring or evaluating the underlying subject matter and of obtaining sufficient appropriate evidence provides the practitioner, who is the measurer or evaluator, with a reasonable basis for the subject matter information.

Appropriateness of the Underlying Subject Matter (Ref: Para. 20(b)(i))

- A37. An appropriate underlying subject matter is:
- (a) Identifiable, and capable of consistent measurement or evaluation against the applicable criteria; and
 - (b) Such that the information about it can be subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.
- A38. The appropriateness of an underlying subject matter is not affected by the level of assurance, that is, if an underlying subject matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa.
- A39. Different underlying 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:

- (a) Precision with which the underlying subject matter can be measured or evaluated against criteria; and
- (b) The persuasiveness of available evidence.

A40. Identifying such characteristics and considering their effects assists the practitioner when assessing the appropriateness of the underlying subject matter, and also in determining the content of the assurance report (see paragraph A143).

A41. In some cases, the assurance engagement may relate to only one part of a broader underlying subject matter. For example, the practitioner may be engaged to report on one aspect of an entity's contribution to sustainable development, such as a number of programs run by an entity that have positive environmental outcomes. In determining whether the engagement exhibits the characteristic of having an appropriate underlying subject matter in such cases, it may be appropriate for the practitioner to consider whether information about the aspect on which the practitioner is asked to report is likely to meet the information needs of intended users, and also how the subject matter information will be presented and distributed, for example, whether there are more significant programs with less favorable outcomes that the entity is not reporting upon.

Suitability and Availability of the Criteria (Ref: Para. 20(b)(ii))

Suitability of the criteria

A42. Suitable criteria 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 practitioners.
- (d) **Neutrality:** neutral criteria result in subject matter information that is free from bias.
- (e) **Understandability:** understandable criteria result in subject matter information that can be understood by the intended users.

A43. Vague descriptions of expectations or judgments of an individual practitioner's experiences do not constitute suitable criteria.

A44. The suitability of criteria for a particular engagement depends on whether they reflect the above characteristics. The relative importance of each characteristic to a particular engagement is a matter of professional judgment. This is the case for both direct

engagements (where the practitioner may select or develop the applicable criteria) and attestation engagements (where the criteria are selected by another party).

A45. Criteria can be developed in a variety of ways, for example, they may be:

- Embodied in laws or regulations.
- Issued by authorized or recognized bodies of experts that follow a transparent due process.
- Developed collectively by a group that does not follow a transparent due process.
- Published in scholarly journals or books.
- Developed for sale on a proprietary basis.
- Specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement.

How criteria are developed may affect the work that the practitioner carries out to assess their suitability.

A46. In some cases, laws or regulations prescribe the criteria to be used for the engagement. In the absence of indications to the contrary, such criteria are presumed to be suitable, as are criteria issued by authorized or recognized bodies of experts that follow a transparent due process if they are relevant to the intended users' information needs. Such criteria are known as established criteria. Even when established criteria exist for an underlying 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 information 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) Alerts readers of the assurance report that the subject matter information is prepared in accordance with special purpose criteria and that, as a result, the subject matter information may not be suitable for another purpose.

A47. If criteria are specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement, they are not suitable if they result in subject matter information or an assurance report that is misleading to the intended users. It is desirable for the intended users or the engaging party to acknowledge that specifically developed criteria are suitable for the intended users' purposes. The absence of such an acknowledgement may affect what is to be done to assess the suitability of the applicable criteria, and the information provided about the criteria in the assurance report.

Availability of the criteria

A48. Criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated. Criteria are made available to the intended users in one or more of the following ways:

- (a) Publicly.
- (b) Through inclusion in a clear manner in the presentation of the subject matter information.
- (c) Through inclusion in a clear manner in the assurance report.
- (d) By general understanding, for example the criterion for measuring time in hours and minutes.

A49. Criteria may also be available only to specific intended users, for example the terms of a contract, or criteria issued by an industry association that are available only to those in the industry because they are relevant only to a specific purpose. When this is the case, paragraph 60(f) requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users (see paragraph A146–A147).

Access to Evidence (Ref: Para. 20(b)(iii))

Quantity and quality of available evidence

A50. The quantity or quality of available evidence is affected by:

- (a) The characteristics of the underlying subject matter or the subject matter information. For example, less objective evidence might be expected when the subject matter information is future oriented rather than historical; and
- (b) Other circumstances such as when evidence that could reasonably be expected to exist is not available because of, for example, the timing of the practitioner's appointment, an entity's document retention policy, inadequate information systems, or a restriction imposed by the responsible party.

Ordinarily, evidence will be persuasive rather than conclusive.

Access to records (Ref: Para. 47)

A51. Seeking the agreement of the appropriate party(ies) that it acknowledges and understands its responsibility to provide the practitioner with the following may assist the practitioner in determining whether the engagement exhibits the characteristic of access to evidence:

- (a) Access to all information of which the appropriate party(ies) is aware that is relevant to the preparation of the subject matter information such as records, documentation and other matters;
- (b) Additional information that the practitioner may request from the appropriate party(ies) for the purpose of the engagement; and

- (c) Unrestricted access to persons within the appropriate party(ies) from whom the practitioner determines it necessary to obtain evidence.

A52. The nature of relationships between the responsible party, the measurer or evaluator, and the engaging party may affect the practitioner's ability to access to records, documentation and other information the practitioner may require as evidence to complete the engagement. The nature of such relationships may therefore be a relevant consideration when determining whether or not to accept the engagement. Examples of some circumstances in which the nature of these relationships may be problematic are included in paragraph A126.

A Rational Purpose (Ref: Para. 20(b)(v))

A53. In determining whether the engagement has a rational purpose, relevant considerations may include the following:

- The intended users of the subject matter information and the assurance report (particularly, when the applicable criteria are designed for a special purpose) and the likelihood that the subject matter information and the assurance report will be used or distributed more broadly than to intended users.
- Whether aspects of the subject matter information are expected to be excluded from the assurance engagement, and the reason for their exclusion.
- The characteristics of the relationships between the responsible party, the measurer or evaluator, and the engaging party, for example, when the measurer or evaluator is not the responsible party, whether the responsible party consents to the use to be made of the subject matter information and will have the opportunity to review the subject matter information before it is made available to intended users or to distribute comment with the subject matter information, as may be the case in a public sector performance audit.
- Who selected the criteria to be applied to measure or evaluate the underlying subject matter, and the degree of judgment and scope for bias in applying them. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria.
- Whether there are any significant limitations on the scope of the practitioner's work.
- Whether the practitioner believes the engaging party intends to associate the practitioner's name with the underlying subject matter or the subject matter information in an inappropriate manner.
- In the case of a limited assurance engagement, whether the engagement circumstances are such that performing procedures that are limited relative to a reasonable assurance engagement will result in the practitioner obtaining a level of assurance that is meaningful to the intended users. For example, in some cases the inherent risks associated with measuring or evaluating the underlying subject matter in accordance with the applicable criteria may be so high that the work

effort associated with a reasonable assurance engagement is needed for the practitioner to obtain a level of assurance that is meaningful to the intended users. (See also paragraphs A2).

Agreeing on the Terms of the Engagement (Ref: Para. 23)

- A54. It is in the interests of both the engaging party and the practitioner that the practitioner sends an engagement letter before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. The form and content of the engagement letter or contract will vary with the engagement circumstances, for example, if laws or regulations prescribe in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such laws or regulations apply and that management acknowledges and understands its responsibilities.
- A55. Laws or regulations, particularly in the public sector, may mandate the appointment of a practitioner and set out specific powers, such as the power to access an appropriate party(ies)'s records and other information, and responsibilities, such as requiring the practitioner to report directly to a minister, the legislature or the public if an appropriate party(ies) attempts to limit the scope of the engagement.

Acceptance of a Change in the Terms of the Engagement (Ref: Para. 25)

- A56. 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, for example, from an assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement.

Quality Control

Professional Accountants in Public Practice (Ref: Para. 16, 27(a)–(b))

- A57. This ISAE has been written in the context of a range of measures taken to ensure the quality of assurance engagements undertaken by professional accountants in public practice, such as those taken by IFAC member bodies in accordance with IFAC's Member Body Compliance Program and Statements of Membership Obligations. Such measures include:
- Competency requirements, such as education and experience benchmarks for entry to membership, and ongoing continuing professional development/life-long learning requirements.
 - Quality control policies and procedures implemented across the firm. ISQC 1 applies to all firms of professional accountants in respect of assurance and related service engagements.
 - A comprehensive Code of Ethics, including detailed independence requirements, founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Firm Level Quality Control (Ref: Para. 2(b), 27(a))

A58. ISQC 1 deals with the firm’s responsibilities to establish and maintain its system of quality control for assurance engagements. It sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence. Compliance with ISQC 1 requires, among other things, that the firm establish and maintain a system of quality control that includes policies and procedures addressing each of the following elements, and that it documents its policies and procedures and communicates them to the firm’s personnel:

- (a) Leadership responsibilities for quality within the firm;
- (b) Relevant ethical requirements;
- (c) Acceptance and continuance of client relationships and specific engagements;
- (d) Human resources;
- (e) Engagement performance; and
- (f) Monitoring.

A59. Other professional requirements, or requirements in laws or regulations that deal with the firm’s responsibilities to establish and maintain a system of quality control are at least as demanding as ISQC 1 when they address all the matters referred to in the preceding paragraph and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1.

Specialist Knowledge and Experience in Assurance (Ref: Para. 27(b))

A60. No one professional accountant can master all areas of accountancy. Specialization is necessary to ensure services can be provided by professional accountants having sufficient depth of knowledge and expertise.⁴ One area of specialization is assurance, which includes, but is broader than, assurance engagements on historical financial information. Competence in assurance requires specialist knowledge and experience in assurance skills and techniques developed through extensive training and practical application. In many jurisdictions, regulators develop rules for registration that, along with IES 8, may provide useful benchmarks for assessing compliance with paragraph 27(b) of this ISAE in a particular jurisdiction. Such rules may involve, for example, demonstration of specific competencies, or a requirement to spend set periods of time on particular aspects of assurance engagements.

Skills, Knowledge and Experience with Respect to the Underlying Subject Matter and its Measurement or Evaluation (Ref: Para. 27(c))

A61. A practitioner may be requested to perform assurance engagements with respect to a wide range of underlying subject matter and subject matter information. Some may require

⁴ International Education Standard (IES) 8, *Competence Requirements for Audit Professionals*

specialized skills and knowledge beyond those ordinarily possessed by a particular individual.

- A62. The IESBA Code requires the professional accountant in public practice to agree to provide only those services that the professional accountant in public practice is competent to perform.⁵ The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. Nonetheless, if the practitioner using the work of a practitioner's expert, having followed this ISAE, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

Assignment of the Team

Collective Competence and Capabilities (Ref: Para. 28)

- A63. ISQC 1 requires the firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm is competent to perform the engagement and has the capabilities, including time and resources, to do so.⁶

Practitioner's Expert (Ref: Para. 28(a), 28(b)(i))

- A64. Some of the assurance work may be performed by a multi-disciplinary team that includes one or more practitioner's expert. For example, a practitioner's expert may be needed to assist the practitioner in obtaining an understanding of the underlying subject matter and other engagement circumstances or in one or more of the matters mentioned in paragraph 41 (in the case of a reasonable assurance engagement) or 42 (in the case of a limited assurance engagement).
- A65. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 45 at the engagement acceptance or continuance stage.

Other Practitioners (Ref: Para. 28(b)(ii))

- A66. The subject matter information may include information upon which another practitioner may have expressed a conclusion. The practitioner, in concluding on the subject matter information, may decide to use the evidence on which that other practitioner's conclusion is based to provide evidence regarding the subject matter information.

⁵ The IESBA Code, paragraph 210.6

⁶ ISQC 1, paragraph 26

Review Responsibilities (*Ref: Para. 29(c)*)

A67. Under ISQC 1, the firm's review responsibility policies and procedures are determined on the basis that the work of less experienced team members is reviewed by more experienced team members.⁷

Objectivity in a Direct Engagement (*Ref: Para. 30*)

A68. In a direct engagement, the practitioner both measures or evaluates the underlying subject matter and obtains sufficient appropriate evidence about that measurement or evaluation. The practitioner may also select or develop the applicable criteria (see paragraph A10). Engagement level quality control policies and procedures are particularly important in a direct engagement because of the threats to objectivity that these multiple roles can pose. Actions to eliminate such threats or reduce them to an acceptable level by applying safeguards may include:

- Having separate assurance personnel undertake each role.
- Increasing the level of direction, supervision and review, particularly of the assurance personnel undertaking the measurement or evaluation of the underlying subject matter.
- Undertaking an engagement quality control review.

If the threats to objectivity cannot be eliminated or reduced to an acceptable level by applying safeguards, it may be appropriate to withdraw from the engagement, where withdrawal is possible under applicable laws or regulations.

Engagement Quality Control Review (*Ref: Para. 32(b)*)

A69. Other matters that may be considered in an engagement quality control review include:

- (a) The engagement team's evaluation of the firm's independence in relation to the engagement;
- (b) Whether appropriate consultation has taken place on matters involving differences of conclusion or other difficult or contentious matters, and the conclusions arising from those consultations; and
- (c) Whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

Professional Skepticism and Professional Judgment

Professional Skepticism (*Ref: Para. 33*)

A70. Professional skepticism includes being alert to, for example:

- Evidence that is inconsistent with other evidence obtained.

⁷ ISQC 1, paragraph 33

- Information that calls into question the reliability of documents and responses to inquiries to be used as evidence.
 - Circumstances that suggest the need for procedures in addition to those required by relevant ISAEs.
- A71. Maintaining professional skepticism throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:
- Overlooking unusual circumstances.
 - Over generalizing when drawing conclusions from observations.
 - Using inappropriate assumptions in determining the nature, timing, and extent of the procedures and evaluating the results thereof.
- A72. Professional skepticism is necessary to the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of documents and responses to inquiries. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances.
- A73. Unless the engagement involves assurance about the genuineness of documents, the practitioner may accept records and documents as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner is required by paragraph 38 to consider the reliability of information to be used as evidence.
- A74. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism.

Professional Judgment (Ref: Para. 34)

- A75. Professional judgment is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and relevant ISAEs and the informed decisions required throughout the engagement cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:
- Materiality and engagement risk.
 - The nature, timing, and extent of procedures used to meet the requirements of relevant ISAEs and obtain evidence.
 - Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the overall objectives of ISAE 3000 and any relevant subject matter-specific ISAE. In particular in the case of a limited assurance engagement, professional judgment is required in evaluating whether a level of assurance that is meaningful to the intended users has been obtained.

- In the case of a direct engagement, applying the criteria to the subject matter, and if the practitioner selects or develops the applicable criteria, selecting or developing them. In the case of an attestation engagement, evaluating such judgments made by others.
 - The appropriate conclusions to draw based on the evidence obtained.
- A76. The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.
- A77. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm assist the practitioner in making informed and reasonable judgments.
- A78. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and measurement or evaluation principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's assurance report.
- A79. Professional judgment needs to be exercised throughout the engagement. It also needs to be appropriately documented. In this regard, paragraph 69 requires the practitioner to prepare documentation sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the significant professional judgments made in reaching conclusions on significant matters arising during the engagement. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

Planning and Performing the Engagement

Planning (Ref: Para. 35)

- A80. Planning involves the engagement partner, other key members of the engagement team, and any key practitioner's external experts 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 procedures to be performed and the reasons for selecting them. 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 practitioner to properly assign work to engagement team members, and facilitates their direction and supervision and the review of their work. Further, it assists, where applicable, the coordination of work done by other practitioners and experts. The nature and extent of planning activities will vary with the engagement circumstances, for example the size and complexity of the responsible party and the practitioner's previous experience with it. Examples of the main matters to be considered include:

- The characteristics of the engagement that define its scope, including the terms of the engagement and the characteristics of the underlying subject matter and the applicable criteria.
- The expected timing and the nature of the communications required.
- The results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the appropriate party(ies) is relevant.
- The engagement process, including in the case of a direct engagement the process of designing the practitioner’s measurement or evaluation of the underlying subject matter, possible sources of evidence, and choices among alternative measurement or evaluation methods.
- The practitioner’s understanding of the appropriate party(ies) and their environment, including the risks that the subject matter information may be materially misstated.
- Identification of intended users and their information needs, and consideration of materiality and the components of engagement risk.
- Whether the risk of fraud is relevant to the engagement.
- The nature, timing and extent of resources necessary to perform the engagement, such as personnel and expertise requirements, including the nature and extent of experts’ involvement.
- The impact of the internal audit function on the engagement.

A81. The practitioner may decide to discuss elements of planning with the appropriate party(ies) to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned procedures with the work of the appropriate party(ies)’s personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the practitioner’s responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is required in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the appropriate party(ies) may compromise the effectiveness of the engagement by making the procedures too predictable.

A82. 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 evidence obtained, the practitioner may need to revise the overall strategy and engagement plan, and thereby the resulting planned nature, timing and extent of procedures.

A83. In smaller or less complex engagements, the entire engagement may be conducted by a very small engagement team, possibly involving the engagement partner (who may be a sole practitioner) working without any other engagement team members. With a smaller team, co-ordination of, and communication between, team members are easier. Establishing the overall engagement strategy in such cases need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the

engagement, and the size of the engagement team. For example, in the case of a recurring engagement, a brief memorandum prepared at the completion of the previous period, based on a review of the working papers and highlighting issues identified in the engagement just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented engagement strategy for the current engagement.

Materiality (Ref: Para. 36)

- A84. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance, that is, for the same intended users, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.
- A85. The criteria may discuss the concept of materiality in the context of the preparation and presentation of the subject matter information and thereby provide a frame of reference for the practitioner in considering materiality for the engagement. Although criteria may discuss materiality in different terms, the concept of materiality generally includes the matters discussed in paragraphs A84–A91. If the applicable criteria do not include a discussion of the concept of materiality, these paragraphs provide the practitioner with a frame of reference.
- A86. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information. The practitioner’s consideration of materiality is a matter of professional judgment, and is affected by the practitioner’s perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:
- (a) Have a reasonable knowledge of the underlying subject matter, and a willingness to study the subject matter information with reasonable diligence;
 - (b) Understand that the subject matter information is prepared and assured to appropriate levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;
 - (c) Understand any inherent uncertainties involved in the measuring or evaluating the underlying subject matter; and
 - (d) Make reasonable decisions on the basis of the subject matter information taken as a whole.

Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered. (See also paragraphs A16–A18).

- A87. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative factors and quantitative factors when considering materiality in a particular engagement is a matter for the practitioner’s professional judgment.

A88. Qualitative factors may include such things as:

- The interaction between, and relative importance of, various components of the subject matter information when it is made up of multiple components, such as a report that includes numerous performance indicators.
- The wording chosen with respect to subject matter information that is expressed in narrative form.
- The characteristics of the presentation adopted for the subject matter information when the applicable criteria allow for variations in that presentation.
- The nature of a misstatement, for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective.
- Whether a misstatement affects compliance with laws or regulations.
- In the case of periodic reporting on an underlying subject matter, the effect of an adjustment that affects past or current subject matter information or is likely to affect future subject matter information.
- Whether a misstatement is the result of an intentional act or is unintentional.
- Whether a misstatement is significant having regard to the practitioner's understanding of known previous communications to users, for example, in relation to the expected outcome of the measurement or evaluation of the underlying subject matter.
- Whether a misstatement relates to the relationship between the responsible party, the measurer or evaluator, or the engaging party or their relationship with other parties.

A89. Quantitative factors relate to the magnitude of misstatements relative to reported amounts for those aspects of the subject matter information, if any, that are:

- Expressed numerically; or
- Otherwise related to numerical values (for example, the number of observed deviations from a control may be a relevant quantitative factor when the subject matter information is a statement that the control is effective).

A90. When quantitative factors are applicable, planning the engagement solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the subject matter information to be materially misstated. It may therefore be appropriate when planning the nature, timing and extent of procedures for the practitioner to determine a quantity less than materiality as a basis for determining the nature, timing and extent of procedures.

A91. Materiality relates to the information covered by the assurance report. Therefore, when the engagement covers some, but not all aspects of the information communicated about an

underlying subject matter, materiality is considered in relation to only that portion that is covered by the engagement.

Obtaining Evidence

Understanding the Engagement Circumstances (Ref: Para. 37)

A92. Obtaining an understanding of the underlying subject matter and other engagement circumstances provides the practitioner with a frame of reference for exercising professional judgment throughout the engagement, for example when:

- Considering the characteristics of the underlying subject matter;
- Assessing the suitability of criteria;
- Considering the factors that, in the practitioner’s professional judgment, are significant in directing the engagement team’s efforts, including where special consideration may be necessary; for example, the need for specialized skills or the work of an expert;
- Establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and considering qualitative materiality factors;
- Developing expectations for use when performing analytical procedures;
- Designing and performing procedures; and
- Evaluating evidence, including the reasonableness of the oral and written representations received by the practitioner.

A93. The practitioner ordinarily has a lesser depth of understanding than the responsible party. The practitioner also ordinarily has a lesser depth of understanding for a limited assurance engagement than for a reasonable assurance engagement, for example, while in some limited assurance engagements the practitioner may obtain an understanding of internal control over the preparation of the subject matter information, this is often not the case.

The Nature, Timing and Extent of Procedures (Ref: Para. 40)

A94. The practitioner chooses a combination of procedures to obtain reasonable assurance or limited assurance, as appropriate. Procedures include: inspection; observation; confirmation; re-calculation; re-performance; analytical procedures; and inquiry. Factors affecting the practitioner’s selection of procedures include: the nature of the underlying subject matter; whether the engagement is a direct engagement or an attestation engagement, and the information needs of the intended users and the engaging party, including relevant time and cost constraints.

A95. In some cases, a subject matter-specific ISAE may include requirements that affect the nature, timing and extent of procedures. For example, a subject matter-specific ISAE may describe the nature or extent of particular procedures to be performed or the level of assurance expected to be obtained in a particular type of engagement. Even in such cases, determining the exact nature, timing and extent of procedures is a matter of professional judgment and will vary from one engagement to the next.

Additional Procedures (Ref: Para. 41(c), 42(c))

- A96. An assurance engagement is an iterative process, and information may come to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based. As the practitioner performs planned procedures, the evidence obtained may cause the auditor to perform additional procedures. In the case of an attestation engagement, such procedures may include asking the measurer or evaluator to examine the matter identified by the practitioner, and to make adjustments to the subject matter information if appropriate.
- A97. The practitioner may become aware of a matter(s) that causes the practitioner to believe the subject matter information may be materially misstated when, for example, performing analytical procedures if the practitioner identifies a fluctuation or relationship that is inconsistent with other relevant information or that differs significantly from expected amounts or ratios. In such cases, the practitioner may investigate such differences by, for example, inquiring of the appropriate party(ies) or performing other procedures as appropriate in the circumstances.
- A98. If, in the case of a limited assurance engagement, a matter(s) comes to the practitioner's attention that causes the practitioner to believe the subject matter information may be materially misstated, the practitioner is required by paragraph 42(c) to design and perform additional procedures. If having done so, however, the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter(s) is not likely to cause the subject matter information to be materially misstated or determine that it does cause the subject matter information to be materially misstated, a scope limitation exists and paragraph 57 applies.

Accumulating Uncorrected Misstatements (Ref: Para. 43, 56(b))

- A99. Uncorrected misstatements are accumulated during the engagement (see paragraph 43) for the purpose of evaluating whether, individually or in aggregate, they are material when forming the practitioner's conclusion (see paragraph 56(b)).

Sufficiency and Appropriateness of Evidence (Ref: Para. 44)

- A100. Evidence is necessary to support the practitioner's conclusion and assurance report. It is cumulative in nature and is primarily obtained from procedures performed during the course of the engagement. It may, however, also include information obtained from other sources such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect its relevance to the current engagement) or a firm's quality control procedures for client acceptance and continuance. Evidence may come from sources inside and outside the appropriate party(ies). Also, information that may be used as evidence may have been prepared by an expert employed or engaged by the appropriate party(ies). Evidence comprises both information that supports and corroborates aspects of the subject matter information, and any information that contradicts aspects of the subject matter information. In addition, in some cases, the absence of information (for example, refusal by the appropriate party(ies) to provide a requested representation) is used by the practitioner, and therefore, also

constitutes evidence. Most of the practitioner's work in forming the assurance conclusion consists of obtaining and evaluating evidence.

- A101. The sufficiency and appropriateness of evidence are interrelated. Sufficiency is the measure of the quantity of evidence. The quantity of evidence needed is affected by the risks of the subject matter information being materially misstated (the higher the risks, 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). Obtaining more evidence, however, may not compensate for its poor quality.
- A102. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability in providing support for the practitioner's conclusion. 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 appropriate party(ies), circumstances may exist that could affect its reliability. 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 outside the appropriate party(ies).
 - Evidence that is generated internally is more reliable when the related controls are effective.
 - Evidence obtained directly by the practitioner (for example, observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
 - Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, a contemporaneously written record of a meeting is ordinarily more reliable than a subsequent oral representation of what was discussed).
- A103. The practitioner ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining evidence from different sources or of a different nature may indicate that an individual item of evidence is not reliable. For example, corroborating information obtained from a source independent of the appropriate party(ies) may increase the assurance the practitioner obtains from a representation from the appropriate party(ies). Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the practitioner determines what additional procedures are necessary to resolve the inconsistency.
- A104. In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance about subject matter information covering a period than about subject matter information at a point in time. In addition, conclusions provided on processes ordinarily

are limited to the period covered by the engagement; the practitioner provides no conclusion about whether the process will continue to function in the specified manner in the future.

A105. Whether sufficient appropriate evidence has been obtained on which to base the practitioner's conclusion is a matter of professional judgment.

Considerations when a Practitioner's Expert is Involved on the Engagement

Nature, Timing and Extent of Procedures (Ref: Para. 45)

A106. The following matters are often relevant when determining the nature, timing and extent of procedures with respect to the work of a practitioner's expert when some of the assurance work is performed by a multi-disciplinary team that includes one or more practitioner's expert (see paragraph A64):

- (a) The significance of that expert's work in the context of the engagement (see also paragraphs A107–A108);
- (b) The nature of the matter to which that expert's work relates;
- (c) The risks of material misstatement in the matter to which that expert's work relates;
- (d) The practitioner's knowledge of and experience with previous work performed by that expert; and
- (e) Whether that expert is subject to the practitioner's firm's quality control policies and procedures (see also paragraphs A109–A110).

Integrating the work of a practitioner's expert

A107. Assurance engagements may be performed on a wide range of underlying subject matters that require specialized skills and knowledge beyond those possessed by the practitioner and for which the work of a practitioner's expert is used. In some situations the practitioner's expert will be consulted to provide advice on an individual matter, but the greater the significance of the practitioner's expert's work in the context of the engagement, the more likely it is that expert will work as part of a multi-disciplinary team comprising subject matter experts and other assurance personnel. The more that expert's work is integrated in nature, timing and extent with the overall work effort, the more important is effective two-way communication between the practitioner's expert and other assurance personnel. Effective two-way communication facilitates the proper integration of the expert's work with the work of others on the engagement.

A108. As noted at paragraph A65, when the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 45 at the engagement acceptance or continuance stage. This is particularly so when the work of the practitioner's expert will be fully integrated with the work of other assurance personnel and when the work of the practitioner's expert is to be used in the early stages of the engagement, for example during initial planning and risk assessment.

The practitioner's firm's quality control policies and procedures

A109. A practitioner's internal expert may be a partner or staff, including temporary staff, of the practitioner's firm, and therefore subject to the quality control policies and procedures of that firm in accordance with ISQC 1 or other professional requirements, or requirements in laws or regulations, that are at least as demanding as ISQC 1. Alternatively, a practitioner's internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality control policies and procedures with the practitioner's firm. A practitioner's external expert is not a member of the engagement team and is not subject to quality control policies and procedures in accordance with ISQC 1.

A110. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the practitioner's procedures with respect to such matters as:

- Competence and capabilities, through recruitment and training programs.
- The practitioner's evaluation of the objectivity of the practitioner's expert. Practitioner's internal experts are subject to relevant ethical requirements, including those pertaining to independence.
- The practitioner's evaluation of the adequacy of the practitioner's expert's work. For example, the firm's training programs may provide the practitioner's internal experts with an appropriate understanding of the interrelationship of their expertise with the evidence gathering process. Reliance on such training and other firm processes, such as protocols for scoping the work of the practitioner's internal experts, may affect the nature, timing and extent of the practitioner's procedures to evaluate the adequacy of the practitioner's expert's work.
- Adherence to regulatory and legal requirements, through monitoring processes.
- Agreement with the practitioner's expert.

Such reliance does not reduce the practitioner's responsibility to meet the requirements of this ISAE.

The Competence, Capabilities and Objectivity of the Practitioner's Expert (Ref: Para. 45(a))

A111. Information regarding the competence, capabilities and objectivity of a practitioner's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other practitioners or others who are familiar with that expert's work.

- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- The firm's quality control policies and procedures (see also paragraphs A109–A110).

A112. While practitioner's experts do not require the same proficiency as the practitioner in performing all aspects of an assurance engagement, a practitioner's experts whose work is used may need a sufficient understanding of relevant ISAEs to enable that expert to relate the work assigned to them to the engagement objective.

A113. The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the practitioner's expert and the significance of the expert's work in the context of the engagement. There may be some circumstances in which safeguards cannot reduce threats to an acceptable level, for example, if in an attestation engagement a proposed practitioner's expert is an individual who has played a significant role in preparing the subject matter information.

A114. When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- Inquire of the appropriate party(ies) about any known interests or relationships that the appropriate party(ies) has with the practitioner's external expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the practitioner's expert include:
 - Financial interests.
 - Business and personal relationships.
 - Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external expert about any interests or relationships with the appropriate party(ies) of which that expert is aware.

Obtaining an Understanding of the Field of Expertise of the Practitioner's Expert (Ref: Para. 45(b))

A115. Having a sufficient understanding of the field of expertise of the practitioner's expert enables the practitioner to:

- (a) Agree with the practitioner's expert the nature, scope and objectives of that expert's work for the practitioner's purposes; and
- (b) Evaluate the adequacy of that work for the practitioner's purposes.

A116. Aspects of the practitioner's expert's field relevant to the practitioner's understanding may include:

- Whether that expert's field has areas of specialty within it that are relevant to the engagement.
- Whether any professional or other standards, and regulatory or legal requirements apply.
- What assumptions and methods, including models where applicable, are used by the practitioner's expert, and whether they are generally accepted within that expert's field and appropriate in the circumstances of the engagement.
- The nature of internal and external data or information the practitioner's expert uses.

Agreement with the Practitioner's Expert (Ref: Para. 45(c))

A117. It may be appropriate for the practitioner's agreement with the practitioner's expert to also include matters such as the following:

- (a) The respective roles and responsibilities of the practitioner and that expert;
- (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
- (c) The need for the practitioner's expert to observe confidentiality requirements.

A118. The matters noted in paragraph A110 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and a practitioner's external expert is often in the form of an engagement letter.

Evaluating the Adequacy of the Practitioner's Expert's Work (Ref: Para. 45(d))

A119. The following matters are ordinarily relevant when evaluating the adequacy of the practitioner's expert's work for the practitioner's purposes:

- (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other evidence;
- (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
- (c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.

A120. If the practitioner determines that the work of the practitioner's expert is not adequate for the practitioner's purposes, options available to the practitioner include:

- (a) Agreeing with that expert on the nature and extent of further work to be performed by that expert; or
- (b) Performing additional procedures appropriate to the circumstances.

Work Performed by Another Practitioner or an Internal Auditor (Ref: Para. 46)

A121. While paragraphs A106–A120 have been written in the context of using work performed by a practitioner’s expert, they may also provide helpful guidance with respect to using work performed by another practitioner or an internal auditor.

Written Representations (Ref: Para. 47)

A122. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the appropriate party(ies). The person(s) from whom the practitioner requests written representations will ordinarily be a member of senior management or those charged with governance depending on, for example, the management and governance structure of the appropriate party(ies), which may vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics.

A123. In a direct engagement where the responsibility for the underlying subject matter is prescribed by laws or regulations in sufficient detail, the practitioner may nonetheless choose to request from the responsible party a written representation that acknowledges responsibility when, for example:

- Those who signed the terms of the audit engagement on behalf of the appropriate party(ies) no longer have the relevant responsibilities;
- The terms of the audit engagement were prepared in a previous year; or
- There is any indication that those responsibilities are misunderstood.

A124. Other written representations requested may include the following:

- Whether the appropriate party(ies) believes the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the subject matter information. A summary of such items is ordinarily included in or attached to the written representation;
- That significant assumptions used in making any material estimates are reasonable; and
- That the appropriate party(ies) has communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial and inconsequential of which the appropriate party(ies) is aware.
- In the case of an attestation engagement where the responsible party is different from the measurer or evaluator, that the responsible party acknowledges responsibility for the underlying subject matter.

A125. Representations by the appropriate party(ies) cannot replace other evidence the practitioner could reasonably expect to be available. Although written representations provide necessary evidence, they do not provide sufficient appropriate evidence on their own about any of the matters with which they deal. Furthermore, the fact that the practitioner has received reliable written representations does not affect the nature or extent of other evidence that the auditor obtains.

Requested Written Representations Not Provided or Not Reliable (Ref: Para. 52)

A126. Circumstances in which the practitioner may not be able to obtain requested written representations include, for example, when:

- The responsible party contracts a third party to perform the relevant measurement or evaluation and later engages the practitioner to undertake an attestation engagement on the resultant subject matter information. In some such cases, for example where the responsible party has an ongoing relationship with the measurer or evaluator, the responsible party may be able to arrange for the measurer or evaluator to provide requested written representations, or the responsible party may be in a position to provide such representations if the responsible party has a reasonable basis for doing so, but in other cases this may not be so.
- An intended user engages the practitioner to undertake an attestation engagement on publicly available information but does not have a relationship with the responsible party of the kind necessary to ensure that party responds to the practitioner's request for a written representation.
- The assurance engagement is undertaken against the wishes of the measurer or evaluator. This may be the case when, for example, the engagement is undertaken pursuant to a court order, or a public sector auditor is required by the legislature or other competent authority to undertake a particular engagement.

In these or similar circumstances, the practitioner may not have access to the evidence needed to support the practitioner's conclusion. If this is the case paragraph 57 of this ISAE applies.

Considering Subsequent Events (Ref: Para. 53)

A127. Consideration of subsequent events in some assurance engagements may not be relevant because of the nature of the underlying 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.

A128. As noted in paragraph 53, the practitioner has no responsibility to perform any procedures regarding the subject matter information after the date of the practitioner's report. However, if, after the date of the practitioner's report, a fact becomes known to the practitioner that, had it been known to the practitioner at the date of the practitioner's report, may have caused the practitioner to amend the report, the practitioner may need to

discuss the matter with the appropriate party(ies) or take other action as appropriate in the circumstances.

Other Information (Ref: Para. 54)

A129. Further actions that may be appropriate if the practitioner identifies a material inconsistency or becomes aware of a material misstatement of fact include, for example:

- Requesting the appropriate party(ies) to consult with a qualified third party, such as the appropriate party(ies)'s legal counsel.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (for example, a regulator).
- Withholding the assurance report.
- Withdrawing from the engagement, where withdrawal is possible under applicable laws or regulations.
- Describing the material inconsistency in the assurance report.

Description of the Applicable Criteria (Ref: Para. 55)

A130. The description of the applicable criteria advises intended users of the framework on which the subject matter information is based, and is particularly important when there are significant differences between various criteria regarding how particular matters may be treated in the subject matter information.

A131. A description that the subject matter information is prepared in accordance with particular criteria is appropriate only if the subject matter information complies with all relevant requirements of those criteria that are effective.

A132. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, "the subject matter information is in substantial compliance with the requirements of XYZ") is not an adequate description as it may mislead users of the subject matter information.

Forming the Assurance Conclusion

Evaluating the Sufficiency and Appropriateness of Evidence (Ref: Para. 56)

A133. An assurance engagement is a cumulative and iterative process. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to change the nature, timing or extent of other planned procedures. Information may come to the practitioner's attention that differs significantly from that expected and upon which planned procedures were based. For example:

- The extent of misstatements that the practitioner prevents or detects may alter the practitioner's professional judgment about the reliability of particular sources of information.

- The practitioner may become aware of discrepancies in relevant information, or conflicting or missing evidence.
- Analytical procedures performed towards the end of the engagement may indicate a previously unrecognized risk of material misstatement.

In such circumstances, the practitioner may need to reevaluate the planned procedures.

A134. The practitioner's professional judgment as to what constitutes sufficient appropriate evidence is influenced by such factors as the following:

- Significance of a potential misstatement and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the subject matter information.
- Effectiveness of the appropriate party(ies)'s responses to address the known risks.
- Experience gained during previous assurance engagements with respect to similar potential misstatements.
- Results of procedures performed, including whether such procedures identified specific misstatements.
- Source and reliability of the available information.
- Persuasiveness of the evidence.
- Understanding of the appropriate party(ies) and its environment.

Scope Limitations (Ref: Para. 57)

A135. A scope limitation may arise from:

- (a) Circumstances beyond the control of the appropriate party(ies). For example, documentation the practitioner considers it necessary to inspect may have been accidentally destroyed;
- (b) Circumstances relating to the nature or timing of the practitioner's work. For example, a physical process the practitioner considers it necessary to observe may have occurred before the practitioner's engagement; or
- (c) Limitations imposed by the responsible party, the measurer or evaluator, or the engaging party on the practitioner who, for example, may prevent the practitioner from performing a procedure the practitioner considers to be necessary in the circumstances. Limitations of this kind may have other implications for the engagement, such as for the practitioner's consideration of risks of material misstatement and engagement acceptance and continuance.

A136. An inability to perform a specific procedure does not constitute a scope limitation if the practitioner is able to obtain sufficient appropriate audit evidence by performing alternative procedures.

A137. The set of procedures performed in a limited assurance engagement is, by definition, limited compared with that necessary in a reasonable assurance engagement. Limitations known to exist prior to accepting a limited assurance engagement are a relevant consideration when establishing whether the preconditions for an assurance engagement are present, in particular, whether the engagement exhibits the characteristics of access to evidence (see paragraph 20(b)(iii)) and a rational purpose (see paragraph 20(b)(v)). If a further limitation is imposed the appropriate party(ies) after a limited assurance engagement has been accepted, it may be appropriate to withdraw from the engagement, where withdrawal is possible under applicable laws or regulations.

Preparing the Assurance Report

Form of Assurance Report (Ref: Para. 58–59)

A138. Oral and other forms of expressing conclusions can be misunderstood without the support of a written report. For this reason, the practitioner does not report orally or by use of symbols without also providing a written assurance report that is readily available whenever the oral report is provided or the symbol is used. For example, a symbol could be hyperlinked to a written assurance report on the Internet.

A139. 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 practitioner 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.

A140. The practitioner may choose 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 include other information and explanations that are not intended to affect the practitioner’s conclusion. As well as the basic elements, long-form reports may describe in detail the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. Whether to include any such information depends on its significance to the information needs of the intended users. As required by paragraph 59, additional information is clearly separated from the practitioner’s conclusion and worded in such a manner so as to make it clear that it is not intended to detract from that conclusion.

Assurance Report Content

Title (Ref: Para. 60(a))

A141. 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 practitioner.

Addressee (Ref: Para. 60(b))

A142. An addressee identifies the party or parties to whom the assurance report is directed. The assurance report is ordinarily addressed to the engaging party, but in some cases there may be other intended users.

Subject Matter Information and Underlying Subject Matter (Ref: Para. 60(c))

A143. Identification and description of the subject matter information and, when appropriate, the underlying subject matter includes for example:

- The point in time or period of time to which the measurement or evaluation of the underlying subject matter relates.
- Where applicable, the name of the responsible party or component of the responsible party to which the underlying subject matter relates.
- An explanation of those characteristics of the underlying 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 measurement or evaluation of the underlying subject matter against the applicable 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 underlying subject matter or other engagement circumstances that affect the comparability of the subject matter information from one period to the next.

Criteria (Ref: Para. 60(d))

A144. The assurance report identifies the criteria against which the underlying subject matter was measured or evaluated so the intended users can understand the basis for the practitioner's conclusion. The assurance report may include the criteria, or refer to them if they are included in the subject matter information or if they are otherwise available from a readily accessible source. It may be relevant in the circumstances, to disclose:

- 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 underlying subject matter (and if they are not, a description of why they are considered suitable).
- Measurement or evaluation methods used when the criteria allow for choice between a number of methods.
- Any significant interpretations made in applying the criteria in the engagement circumstances.

- Whether there have been any changes in the measurement or evaluation methods used.

Inherent Limitations (Ref: Para. 60(e))

A145. 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.

Specific Purpose (Ref: Para. 60(f))

A146. In some cases the criteria used to measure or evaluate the underlying subject matter information may be designed for a specific purpose. For example, a regulator may require certain entities to use particular criteria designed for regulatory purposes. To avoid misunderstandings, the practitioner alerts readers of the assurance report to this fact and that, therefore, the subject matter information may not be suitable for another purpose.

A147. In addition to the alert required by paragraph 60(f), the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the laws or regulations of the particular jurisdiction, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted in this way, the absence of a restriction regarding a particular reader or purpose does not itself indicate that a legal responsibility is owed by the practitioner in relation to that reader or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

Relative Responsibilities (Ref: Para. 60(g))

A148. Identifying relative responsibilities informs the intended users that the responsible party is responsible for the underlying subject matter, and:

- (a) In the case of a direct engagement that the practitioner's role is to independently measure or evaluate the underlying subject matter and express a conclusion about the subject matter information; or
- (b) In the case of an attestation engagement, that the measurer or evaluator is responsible for the subject matter information, and the practitioner's role is to independently express a conclusion about it.

Subject Matter Specific ISAE (Ref: Para. 60(h))

A149. Where a subject matter specific ISAE applies to only part of the subject matter information, it may be appropriate to cite both that subject matter specific ISAE and this ISAE.

Summary of the Work Performed (Ref: Para. 60(k))

- A150. The summary of the work performed helps the intended users understand the nature of the assurance conveyed by the assurance report. For many assurance engagements, infinite variations in procedures are possible in theory. In practice, however, these are difficult to communicate clearly and unambiguously. ISA 700⁸, the ISREs and subject matter-specific ISAEs may provide guidance to practitioners on the appropriate type of summary.
- A151. Where no specific ISAE provides guidance on procedures for a particular underlying subject matter, the summary might include a more detailed description of the work performed. It may be appropriate to include in the summary a statement that the work performed included evaluating the suitability of the criteria.
- A152. Because in a limited assurance engagement an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance conveyed by a conclusion expressed in a form that conveys that, based on the procedures performed, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated, 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 procedures. In some circumstances it may be appropriate to indicate certain procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement.
- A153. It is important that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. In most cases this will not involve relating the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.

The Practitioner's Conclusion (Ref: Para. 60(l))

- A154. In an attestation engagement, the practitioner's conclusion can be worded either in terms of the underlying subject matter and the criteria (an example of such a conclusion expressed in the form of an opinion is: "In our opinion internal control is effective, in all material respects, based on XYZ criteria") or in terms of a statement made by the measurer or evaluator (an example of such a conclusion expressed in the form of an opinion is: "In our opinion the measurer's or evaluator's statement that internal control is effective, in all material respects, based on XYZ criteria, is fairly stated.>").
- A155. In a direct engagement, the practitioner's conclusion is always worded in terms of the underlying subject matter and the criteria.
- A156. Where appropriate, the conclusion is required to inform the intended users of the context in which the practitioner's conclusion is to be read. The practitioner's conclusion may, for example, include wording such as: "This conclusion has been formed on the basis of the matters outlined elsewhere in this independent assurance report." This would be appropriate, for example, when the report includes an explanation of particular

⁸ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

characteristics of the underlying subject matter of which the intended users should be aware.

A157. An example of a conclusion expressed in the form appropriate for a limited assurance engagement is: “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 measurer’s or evaluator’s statement that internal control is effective, in all material respects, based on XYZ criteria, is not fairly stated.”

A158. This form of expression conveys a level of “limited assurance” that is commensurate with the level of the practitioner’s procedures given the characteristics of the underlying subject matter and other engagement circumstances described in the assurance report.

The Practitioner’s Signature (Ref: Para. 60(m))

A159. The practitioner’s signature is either in the name of the practitioner’s firm, the personal name of the individual practitioner or both, as appropriate for the particular jurisdiction. In addition to the practitioner’s signature, in certain jurisdictions, the practitioner may be required to make a declaration in the practitioner’s report about professional designations or recognition by the appropriate licensing authority in that jurisdiction.

Date (Ref: Para. 60(n))

A160. Including the assurance report date informs the intended users that the practitioner has considered the effect on the subject matter information and on the assurance report of events that occurred up to that date.

Reference to the Practitioner’s Expert in the Assurance Report (Ref: Para. 61)

A161. In some cases, laws or regulations may require a reference to the work of a practitioner’s expert in the assurance report, for example, for the purposes of transparency in the public sector. It may also be appropriate in others circumstances, for example, to explain the nature of a modification of the practitioner’s conclusion, or when the work of an expert is integral to findings included in a long form report.

A162. Nonetheless, the practitioner has sole responsibility for the conclusion expressed, and that responsibility is not reduced by the practitioner’s use of the work of a practitioner’s expert. It is important therefore that if the assurance report refers to a practitioner’s expert, that the wording of that report does not imply that the practitioner’s responsibility for the conclusion expressed is reduced because of the involvement of that expert.

A163. A generic reference in a long form report to the engagement having been conducted by suitably qualified personnel including subject matter experts and assurance specialist is unlikely to be misunderstood as reduced responsibility. The potential for misunderstanding is higher, however, in the case of short form reports, where minimum contextual information is able to be presented, or when the practitioner’s expert is referred to by name. Therefore, additional wording may be needed in such cases to prevent the assurance report implying

that the practitioner's responsibility for the conclusion expressed is reduced because of the involvement of the expert.

Unmodified and Modified Conclusions (Ref: Para. 64(b))

A164. In those direct engagements where the subject matter information is presented only in the practitioner's conclusion, and the practitioner concludes that the subject matter does not, in all material respects, conform with the criteria, for example: "In our opinion, except for [...], internal control is effective, in all material respects, based on XYZ criteria," such a conclusion would also be considered to be qualified (or adverse as appropriate).

A165. The term "pervasive" describes the effects on the subject matter information of misstatements or the possible effects on the subject matter information of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the subject matter information are those that, in the practitioner's professional judgment:

- (a) Are not confined to specific aspects of the subject matter information;
- (b) If so confined, represent or could represent a substantial proportion of the subject matter information; or
- (c) In relation to disclosures, are fundamental to the intended users' understanding of the subject matter information.

Other Communication Responsibilities (Ref: Para. 68)

A166. Matters that may be appropriate to communicate with the responsible party, the measurer or evaluator, the engaging party or others include fraud or suspected fraud, and in the case of an attestation engagement, bias in the preparation of the subject matter information.

Documentation (Ref: Para. 69)

A167. Documentation includes a record of the practitioner's reasoning on all significant matters that require the exercise of professional judgment, and related conclusions. The existence of difficult questions of principle or professional judgment, calls for the documentation to include the relevant facts that were known by the practitioner at the time the conclusion was reached.

A168. It is neither necessary nor practical to document every matter considered, or professional judgment made, during an engagement. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the engagement file. Similarly, the practitioner need not include in engagement file superseded drafts of working papers, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

A169. In applying professional judgment to assessing the extent of documentation to be prepared and retained, the practitioner 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 practitioner who has no previous experience with 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.

A170. Documentation ordinarily includes a record of:

- The identifying characteristics of the specific items or matters tested;
- Who performed the engagement work and the date such work was completed; and
- Who reviewed the engagement work performed and the date and extent of such review.
- Discussions of significant matters with the appropriate party(ies) and others, including the nature of the significant matters discussed and when and with whom the discussions took place.

Quality Control

A171. Documentation ordinarily includes a record of:

- Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
- Conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions.
- Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements.
- The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

Assembly of the Final Engagement File

A172. ISQC 1 (or other professional requirements, or requirements in laws or regulation that are at least as demanding as ISQC 1) requires firms to establish policies and procedures for the timely completion of the assembly of engagement files. An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.

A173. The completion of the assembly of the final engagement file after the date of the assurance report is an administrative process that does not involve the performance of new procedures or the drawing of new conclusions. Changes may, however, be made to the documentation during the final assembly process if they are administrative in nature. Examples of such changes include:

- Deleting or discarding superseded documentation.

- Sorting, collating and cross-referencing working papers.
- Signing off on completion checklists relating to the file assembly process.
- Documenting evidence that the practitioner has obtained, discussed and agreed with the relevant members of the engagement team before the date of the assurance report.

A174. After the assembly of the final engagement file has been completed, engagement documentation of any nature is not deleted or discarded before the end of its retention period.

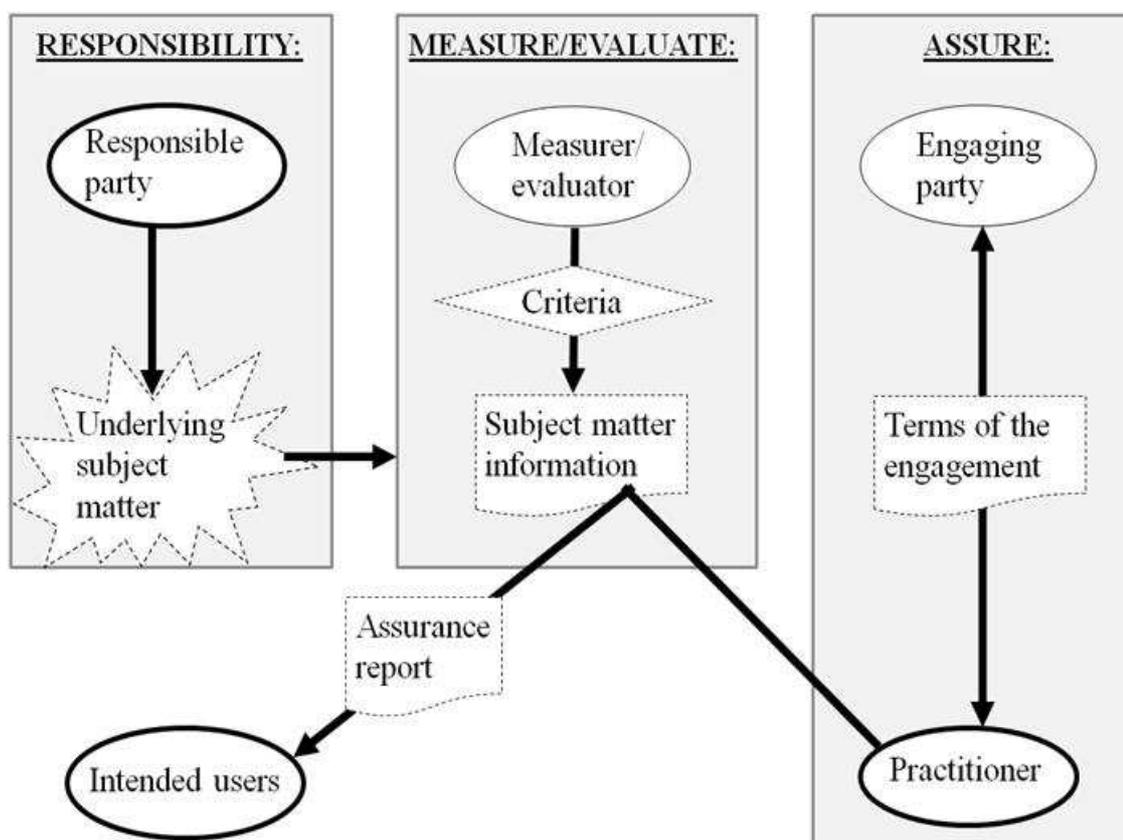
A175. If the practitioner finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed, regardless of the nature of the amendments or additions, the documentation includes:

- (a) The specific reasons for making the amendments or additions; and
- (b) When and by whom they were made and reviewed.

Appendix

(Ref: Para. A3–A6, A8–A10, A15–A20, A34–A36)

Roles and Responsibilities



1. All assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. Depending on the engagement circumstances, there may also be a separate role of measurer or evaluator, or engaging party.
2. The above diagram illustrates how the following roles relate to an assurance engagement:
 - (a) The responsible party is responsible for the underlying subject matter.
 - (b) The measurer or evaluator uses the criteria to measure or evaluate the underlying subject matter resulting in the subject matter information.
 - (c) The engaging party agrees the terms of the engagement with the practitioner.
 - (d) The practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of the underlying subject matter against criteria.

- (e) The intended users make decisions on the basis of the subject matter information. The intended users are the individual(s) or organization(s), or class(es) thereof for whom the practitioner prepares the assurance report.

3. The following observations can be made about these roles:

- Every assurance engagement has at least a responsible party and intended users, in addition to the practitioner.
- The practitioner cannot be the responsible party, the engaging party or an intended user.
- In a direct engagement, the practitioner is also the measurer or evaluator.
- In an attestation engagement, the responsible party, or someone else, but not the practitioner, can be the measurer or evaluator.
- Where the practitioner has measured or evaluated the underlying subject matter against the criteria, the engagement is a direct engagement. The character of that engagement cannot be changed to an attestation engagement by another party assuming responsibility for the measurement or evaluation, for example, by the responsible party attaching a statement to the subject matter information accepting responsibility for it.
- The responsible party can be the engaging party.
- In many attestation engagements the responsible party may also be the measurer or evaluator, and the engaging party. An example is when an entity engages a practitioner to perform an assurance engagement regarding a report it has prepared about its own sustainability practices. An example of when the responsible party is different from the measurer or evaluator, is when the practitioner is engaged to perform an assurance engagement regarding a report prepared by a government organization about a private company's sustainability practices.
- In an attestation engagement, the measurer or evaluator ordinarily provides the practitioner with a written representation about the subject matter information. In some cases, the practitioner may not be able to obtain such a representation, for example, when the engaging party is not the measurer or evaluator.
- The responsible party can be one of the intended users, but not the only one.
- The responsible party, the measurer or evaluator, and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the executive board of that entity. The relationship between the responsible party, the measurer or evaluator, 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 (an intended user) 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 (the responsible party), but for which senior management is ultimately responsible.

- An engaging party that is not also the responsible party can be the intended user.

International Framework for Assurance Engagements

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Introduction

1. This Framework ~~is issued solely to facilitate understanding of~~ defines and describes the elements and objectives of an assurance engagement and ~~the identifies~~ engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.
2. This Framework ~~is not a Standard and, accordingly, does not itself establish any basic principles or essential procedures, or contain any standards or provide procedural requirements for the performance of audits, reviews, or other assurance engagements. An assurance report cannot, therefore, claim that an engagement has been conducted in accordance with this Framework, but rather should refer to relevant Assurance Standards. ISAs, ISREs and ISAEs Assurance Standards contain basic principles, essential procedures objectives, requirements application and other explanatory material, introductory material and definitions that are and related guidance, consistent with the concepts in this Framework, and are to be applied in audit, review, and other assurance engagements.~~¹ Appendix 1 illustrates the ambit of pronouncements issued by the IAASB and their relationship to each other and to the IESBA Code of Ethics for Professional Accountants for the performance of assurance engagements. The relationship between the Framework and the ISAs, ISREs and ISAEs is illustrated in the "Structure of Pronouncements Issued by the IAASB" section of the Handbook of International Auditing, Assurance, and Ethics Pronouncements.
- 2.13. ~~This Framework~~ provides a frame of reference for:
 - (a) ~~Professional accountants in public practice ("pPractitioners") whoen performing assurance engagements. Professional accountants in the public sector refer to the Public Sector Perspective at the end of the Framework. Professional accountants who are neither in public practice nor in the public sector are encouraged to;~~
 - (b) ~~Others involved with assurance engagements, including the intended users of an assurance report and those engaging a practitioner (the "engaging party")the responsible party; and~~
 - (c) ~~The International Auditing and Assurance Standards Board (IAASB) in its development of ISAs, ISREs and ISAEs (hereinafter referred to as Assurance Standards), Practice Statements and other papers.~~
34. 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~~

¹ See the Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services

~~with assurance engagements, such as those engaging a practitioner (the “engaging party”).~~

- ~~Definition and objective~~Description of an assurance engagements: This section defines ~~describes~~ assurance engagements and identifies the objectives of the two types of assurance engagement a practitioner is permitted to perform. This Framework ~~calls these two types~~ distinguishes direct engagements from attestation engagements, and reasonable assurance engagements and from limited assurance engagements.²
- *Scope of the Framework*: This section distinguishes assurance engagements from other engagements, such as consulting engagements.
- ~~Engagement acceptance~~Preconditions for an Assurance Engagement: This section sets out ~~preconditions~~ characteristics that must be exhibited ~~before~~ for a practitioner ~~can to~~ accept an assurance engagement.
- *Elements of an assurance engagement*: This section identifies and discusses five elements assurance engagements ~~performed by practitioners~~ exhibit: a three party relationship, an underlying subject matter, criteria, evidence and an assurance report. It further explains important distinctions between reasonable assurance engagements and limited assurance engagements (also outlined in ~~the~~ Appendix 3). This section also discusses, for example, the significant variation in the underlying subject matters of assurance engagements, the required characteristics of suitable criteria, the role of risk and materiality in assurance engagements, and how conclusions are expressed in ~~each of the two types of~~ reasonable assurance engagements and in limited assurance engagements.
- ~~Inappropriate use of the practitioner’s name~~: This section discusses implications of a practitioner’s association with a subject matter.
- *Other matters*: This section discusses communication responsibilities other than the practitioner’s assurance report, documentation, and the implications of a practitioner’s association with an underlying subject matter or with subject matter information.

Ethical Principles and Quality Control Standards

45. Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high quality assurance engagements. Such engagements are performed in accordance with Assurance

² For assurance engagements regarding historical financial information in particular, reasonable assurance engagements are called audits, and limited assurance engagements are called reviews.

~~Standards, which are premised on the basis that: In addition to this Framework and ISAs, ISREs and ISAEs, practitioners who perform assurance engagements are governed by:~~

- ~~(a) The members of the engagement team and the engagement quality control reviewer, if applicable, are subject to Parts A and B of the IFAC Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code) related to assurance engagements, or other professional requirements, or requirements in laws or regulations, that are at least demanding which establishes fundamental ethical principles for professional accountants; and~~
- ~~(b) The practitioner performing the engagement is a member of a firm that is subject to International Standards on Quality Control 1 (ISQCs 1), or other professional requirements, or requirements in laws or regulations, regarding the firm's responsibility for its system of quality control, that are at least as demanding as ISQC 1, which establish standards and provide guidance on a firm's system of quality control.³⁴~~

The IESBA Code

~~56. Part A of the IESBA Code establishes sets out the following fundamental ethical principles with which the practitioner is required to comply that all professional accountants are required to observe, including:~~

- ~~(a) Integrity;~~
- ~~(b) Objectivity;~~
- ~~(c) Professional competence and due care;~~
- ~~(d) Confidentiality; and~~
- ~~(e) Professional behavior.~~

~~76. Part A also provides a conceptual framework for professional accountants to apply to identify threats to compliance with the fundamental principles, evaluate the significance of the threats identified, and apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.~~

~~8. Part B of the IESBA Code describes how the conceptual framework in Part A applies in certain situations to professional accountants in public practice, including independence. The IESBA Code defines independence as comprising both~~

³ "Firm" should be read as referring to the public sector equivalent where relevant.

⁴ Additional standards and guidance requirements on quality control procedures for specific types of assurance engagement are set out in ISAs, ISREs and ISAEs.

independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism, which applies only to professional accountants in public practice (“practitioners”); 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.

ISQC 1

97. ISQC 1 deals with the firm’s responsibilities to establish and maintain its system of quality control for assurance engagements. Compliance with ISQC 1 requires, among other things, that the firm establish and maintain a system of quality control that includes policies and procedures addressing each of the following elements, and that it documents its policies and procedures and communicates them to the firm’s personnel:

- (a) Leadership responsibilities for quality within the firm;
- (b) Relevant ethical requirements;
- (c) Acceptance and continuance of client relationships and specific engagements;
- (d) Human resources;
- (e) Engagement performance; and
- (f) Monitoring.

Definition and Objective of an Description of Assurance Engagements

710. “An assurance engagement” ~~means is~~ an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation ~~or measurement~~ of an underlying subject matter against criteria.

811. The outcome of the measurement or evaluation ~~or measurement~~ of an underlying subject matter is the information that results from applying the criteria to the underlying subject matter. For example:

- The ~~recognition, measurement, preparation and presentation and disclosure~~ represented in the of financial statements (outcome) result from measuring an

~~entity's financial position, financial performance and cash flows (underlying subject matter) by applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as International Financial Reporting Standards, (criteria), to an entity's financial position, financial performance and cash flows (subject matter).~~

- ~~An assertion statement about the effectiveness of internal control (outcome) results from evaluating the effectiveness of an entity's internal control process (underlying subject matter) by applying a framework for evaluating the effectiveness of internal control, relevant criteria such as COSO⁵ or CoCo,⁶ (criteria) to internal control, a process (subject matter).~~
- ~~Entity-specific performance measures (outcome) result from measuring various aspects of performance (underlying subject matter) by applying relevant measurement methodologies (criteria).~~
- ~~A greenhouse gas statement (outcome) result from measuring an entity's greenhouse emissions (underlying subject matter) by applying recognition, measurement and presentation protocols (criteria).~~
- ~~A statement about compliance (outcome) results from evaluating the compliance of an entity (underlying subject matter) with, for example, laws and regulations (criteria).~~

In the remainder of this Framework, the term "subject matter information" will be used to mean the outcome of the measurement or evaluation ~~or measurement~~ of an underlying subject matter. It is the subject matter information about which the practitioner gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report.

~~10. In some assurance engagements, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users. These engagements are called "assertion-based~~

~~engagements." In other assurance engagements, the practitioner either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report. These engagements are called "direct reporting engagements."~~

⁵ ~~"Internal Control – Integrated Framework" The Committee of Sponsoring Organizations of the Treadway Commission.~~

⁶ ~~"Guidance on Assessing Control – The CoCo Principles" Criteria of Control Board, The Canadian Institute of Chartered Accountants.~~

Attestation Engagements and Direct Engagements

12. In an attestation engagement, a party other than the practitioner, measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented as part of, or accompanying, the assurance report.
13. The role of the practitioner in an attestation engagement is to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information, as prepared by the measurer or evaluator, is free from material misstatement. That conclusion can be worded either in terms of a statement made by the measurer or evaluator or in terms of the underlying subject matter and the criteria. (See also paragraph 83.)
14. In a direct engagement, the practitioner measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information, which the practitioner presents as part of, or accompanying, the assurance report.
15. In addition to measuring or evaluating the underlying subject matter, the practitioner in a direct engagement also 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 applicable criteria. The practitioner often obtains 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 practitioner's conclusion is worded in terms of the underlying subject matter and the criteria. (See also Appendix 2.)

Reasonable Assurance Engagements and Limited Assurance Engagements

- ~~11~~16. ~~Under this Framework, there are two types of assurance engagement a practitioner is permitted to may perform: a reasonable assurance engagement and or a limited assurance engagement.~~
17. The objective of In a reasonable assurance engagement the practitioner reduces is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement⁷ as the basis for a positive form of expression of the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the

⁷ ~~Engagement circumstances refers to the broad context defining the particular engagement, which includes the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the underlying subject matter, the applicable measurement or evaluation criteria to be used, the information needs of the intended users, relevant characteristics of the responsible parties to the engagement and their and its their environment, and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.~~

practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter.

~~18.~~ The objective of a limited assurance engagement the practitioner is a reduction in assurance 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 a negative form of expression of the practitioner's conclusion.~~ The practitioner's conclusion is expressed in a form that conveys that, based on the procedures performed, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. The set of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful to the intended users. The limited assurance report communicates the limited nature of the assurance obtained. (See also Appendix 3.)

Scope of the Framework

~~1219.~~ Not all engagements performed by practitioners are assurance engagements. Other frequently performed engagements that are not consistent with the description in paragraph 10 above ~~do not meet the above definition~~ (and therefore are not covered by this Framework) include:

- Engagements covered by International Standards for Related Services (ISRS), such as agreed-upon procedures engagements and compilations of financial or other information.⁸
- The preparation of tax returns where no conclusion conveying assurance is expressed.
- Consulting (or advisory) engagements,⁹ such as management and tax consulting.

~~1320.~~ An assurance engagement may be part of a larger engagement, for example, when a business acquisition consulting engagement includes a requirement to convey

⁸ ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information, and ISRS 4410, Engagements to Compile Financial Information

⁹ 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. Reports (if issued) are generally written 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.

assurance regarding historical or prospective financial information. In such circumstances, this Framework is relevant only to the assurance portion of the engagement.

~~14~~21. The following engagements, which may ~~meet the definition~~be consistent with the description in paragraph ~~7~~10, ~~need are not be performed in accordance with considered assurance engagements in terms of~~ this Framework:

- (a) Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters; and
- (b) Engagements that include professional opinions, views or wording from which a user may derive some assurance, if all of the following apply:
 - (i) Those opinions, views or wording are merely incidental to the overall engagement;
 - (ii) Any written report issued is expressly restricted for use by only the intended users specified in the report;
 - (iii) Under a written understanding with the specified intended users, the engagement is not intended to be an assurance engagement; and
 - (iv) The engagement is not represented as an assurance engagement in the professional accountant's report.

Reports on Non-Assurance Engagements

~~15~~22. A practitioner reporting on an engagement that is not an assurance engagement within the scope of this Framework, clearly distinguishes that report from an assurance report. So as not to confuse users, a report that is not an assurance report avoids, for example:

- Implying compliance with this Framework, ~~ISAs, ISREs or ISAEs~~ or with Assurance Standards.
- Inappropriately using the words "assurance," "audit" or "review."
- Including a statement that could reasonably be mistaken for a conclusion based on sufficient appropriate evidence that is designed to enhance the degree of confidence of intended users about the outcome of the measurement or evaluation of an underlying subject matter ~~or measurement of an underlying~~ subject matter against criteria.

~~16~~23. The practitioner and the responsible party may agree to apply the principles of this Framework to an engagement when there are no intended users other than the responsible party but where all other requirements of ~~the ISAs, ISREs or ISAEs~~ relevant

Assurance Standards are met. In such cases, the practitioner's report includes a statement restricting the use of the report to the responsible party.

Engagement AcceptancePreconditions for an Assurance Engagement

~~17~~24. A practitioner accepts an assurance engagement only where the practitioner's preliminary knowledge of the engagement circumstances indicates that 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 responsible party, the measurer or evaluator, or the engaging party, as appropriate, are suitable in the circumstances~~Relevant ethical requirements, such as independence and professional competence will be satisfied; and~~
- (b) The engagement exhibits all of the following characteristics:
 - (i) The underlying subject matter is appropriate;
 - (ii) The criteria to be ~~used~~applied in the preparation of the subject matter information are suitable and will be ~~are~~ available to the intended users;
 - (iii) The practitioner will have ~~has~~ access to ~~sufficient appropriate~~the evidence needed to support the practitioner's conclusion;
 - (iv) The practitioner'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
 - (v) ~~The practitioner is satisfied that +~~There is a rational purpose for the engagement. If there is a significant limitation on the scope of the practitioner's work (see paragraph 55), it may be unlikely that the engagement has a rational purpose. Also, a practitioner may believe the engaging party intends to associate the practitioner's name with the subject matter in an inappropriate manner (see paragraph 67).

~~Specific ISAs, ISREs or ISAEs may include additional requirements that need to be satisfied prior to accepting an engagement.~~

25. The subject matters of different assurance engagements can vary greatly. It is important, however, that the practitioner be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities. (See also paragraphs 33–34)

~~1826.~~ When a potential engagement cannot be accepted as an assurance engagement because it does not exhibit all the characteristics in the previous paragraph, the engaging party may be able to identify a different engagement that will meet the needs of intended users. For example:

- (a) If the original criteria were not suitable, an assurance engagement that meets the preconditions in paragraph 24 may still be performed if:
 - (i) The engaging party can identify an aspect of the original underlying subject matter for which those criteria are suitable, ~~and~~. In such cases, the practitioner could perform an assurance engagement with respect to that aspect as an underlying subject matter in its own right, with. ~~In such cases~~, the assurance report making it clear that it does not relate to the original underlying subject matter in its entirety; or
 - (ii) Alternative criteria suitable for the underlying original subject matter can be selected or developed.
- (b) The engaging party may request an engagement that is not an assurance engagement, such as a consulting or an agreed-upon procedures engagement.

~~1927.~~ Having been accepted, it is not appropriate to change an assurance engagement, ~~a practitioner may not change that engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement,~~ without reasonable justification. A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement, ~~ordinarily will~~ may justify a request for a change in the engagement. If such a change is made, ~~the practitioner does not disregard evidence that was obtained prior to the change~~ is not disregarded.

Elements of an Assurance Engagement

~~2028.~~ The following elements of an assurance engagement are discussed in this section:

- (a) A three party relationship involving a practitioner, 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.

Three Party Relationship

- ~~2129.~~ All assurance engagements have at least involve three separate parties: a practitioner, a responsible party and intended users. Depending on the engagement circumstances, there may also be a separate role of measurer or evaluator, or engaging party. (See also Appendix 4.)
- ~~2230.~~ The responsible party and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the ~~management executive~~ 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 (an intended user) 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 (the responsible party), but for which senior management is ultimately responsible.

Practitioner

- ~~2331.~~ The term "practitioner" as used in this Framework is broader than the term "auditor" as used in ISAs and ISREs, which relates only to practitioners performing audit or review engagements with respect to historical financial information. is the individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm) by applying assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement.¹⁰ In a direct engagement, the practitioner both measures or evaluates the underlying subject matter against the criteria and applies assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the outcome of that measurement or evaluation is free from material misstatement.
- ~~2532.~~ If a competent practitioner other than a professional accountant in public practice chooses to represent compliance with an Assurance Standard, it is important to recognize that those Standards include requirements that reflect the premise in the paragraph 5 regarding the IESBA Code and ISQC 1, or other professional requirements, or requirements in laws or regulations that are at least as demanding.
- ~~2433.~~ A practitioner 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 practitioner. In such cases, as discussed in paragraph 25, those persons carrying out the engagement collectively need to have appropriate competence and capabilities. In addition, the engagement

¹⁰ "Engagement partner;" and "firm" should be read as referring to their public sector equivalents where relevant.

team needs to be able to be sufficiently involved in the work of the practitioner's expert, and to obtain the evidence necessary to conclude whether the work of that expert is adequate for the practitioner's purposes.

34. ~~As noted in paragraph 17 (a), a practitioner does not accept a~~An engagement is not accepted if preliminary knowledge of the engagement circumstances indicates that ethical requirements regarding professional competence will not be satisfied. In some cases, these requirements can be satisfied by the practitioner using the work of persons from other professional disciplines, referred to as a practitioner's experts. In such cases, the practitioner is satisfied that those persons carrying out the engagement collectively possess the requisite skills and knowledge, and that the practitioner has an adequate level of involvement in the engagement and understanding of the work for which any expert is used. The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. Nonetheless, if the practitioner using the work of a practitioner's expert, having followed the relevant Assurance Standards, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

Responsible Party

2535. The responsible party is the party responsible for the underlying subject matter. person (or persons) who:

- (a) ~~— In a direct reporting engagement, is responsible for the subject matter; or~~
- (b) ~~— In an assertion-based attestation engagement, the responsible party is also responsible for the subject matter information (the assertion), and may be responsible for the subject matter. An example of when the responsible party is responsible for both the subject matter information and the subject matter, is when an entity engages a practitioner to perform an assurance engagement regarding a report it has prepared about its own sustainability practices. An example of when the responsible party is responsible for the subject matter information but not the subject matter, is when a government organization engages a practitioner to perform an assurance engagement regarding a report about a private company's sustainability practices that the organization has prepared and is to distribute to intended users.~~

The responsible party may or may not be the party ~~who~~that engages the practitioner to perform the assurance engagement (the engaging party).

26. ~~The responsible party ordinarily provides the practitioner with 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. In a direct~~

~~reporting engagement, the practitioner may not be able to obtain such a representation when the engaging party is different from the responsible party.~~

Intended Users

~~2736.~~ The intended users are the individual(s) or organization(s), or class(es) thereof ~~person, persons or class of persons~~ for whom the practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one.

~~2837.~~ ~~Whenever practical, the assurance report is addressed to all the intended users, but in some cases there may be other~~ In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly where ~~there is a~~ large number of people ~~who will~~ have access to it. In such cases, particularly where possible readers are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by laws or regulations.

~~2938.~~ ~~Whenever practical,~~ Intended users or their representatives are may be directly involved with the practitioner and the responsible party (and the engaging party if different) in determining the requirements of the engagement. Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting factual findings based upon the procedures, rather than a conclusion):

- (a) The practitioner is responsible for determining the nature, timing and extent of procedures; and
- (b) The practitioner may need to perform additional procedures if information comes to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based ~~is required to pursue any matter the practitioner becomes aware of that leads the practitioner to question whether a material modification should be made to the subject matter information.~~

~~3039.~~ In some cases, intended users (for example, bankers and regulators) impose a requirement ~~for~~, or request, ~~the responsible party (or the engaging party if different) to arrange for,~~ an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for specified intended users or a specific purpose, the assurance report includes a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by including a restriction in the distribution or use of the assurance report that limits its use to those users or that purpose. ~~Footnote 8: 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 itself indicate that a legal responsibility is owed by the practitioner in relation to that reader or for that purpose. Whether a legal responsibility is owed will depend on the circumstances of each case and the relevant jurisdiction.

Underlying Subject Matter

~~3140.~~ The underlying subject matter, ~~and subject matter information~~, of an assurance engagement can take many forms, such as:

- ~~Historical~~ 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.
- Future financial performance or condition (for example, prospective financial position, financial performance and cash flows) for which the subject matter information may be the recognition, measurement, presentation and disclosure represented in a financial forecast or projection.
- Non-financial performance or conditions (for example, performance of an entity) for which the subject matter information may be key indicators of efficiency and effectiveness.
- Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.
- Systems and processes (for example, an entity's internal control or IT system) for which the subject matter information may be ~~an assertion~~ a statement about effectiveness.
- Behavior (for example, corporate governance, compliance with regulation, human resource practices) for which the subject matter information may be a statement of compliance or a statement of effectiveness.

Appendix 5 shows a categorization of the range of possible underlying subject matters with some examples.

~~3241.~~ Different underlying ~~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:

- (a) Precision with which the underlying subject matter can be measured or evaluated ~~or measured against~~ criteria; and
- (b) The persuasiveness of available evidence.

The assurance report may notes characteristics that are of particular relevance to the intended users.

~~3342.~~ The appropriateness of an underlying subject matter is not affected by the level of assurance, that is, if an underlying subject matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa. An appropriate underlying subject matter is:

- (a) Identifiable, and capable of consistent measurement or 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.

Criteria

~~3443.~~ Criteria are the benchmarks used to measure or evaluate ~~or measure~~ the underlying subject matter including, where relevant, those benchmarks for presentation and disclosure. 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 ~~engagement purpose~~; and when reporting on compliance, the criteria may be the applicable law, regulation or contract. Examples of less formal criteria are an internally developed code of conduct or an agreed level of performance (such as the number of times a particular committee is expected to meet in a year).

~~3544.~~ Suitable criteria are required for reasonably consistent measurement or evaluation ~~or measurement~~ of an underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. Suitable criteria are context-sensitive, that is, relevant to the engagement circumstances. Even for the same underlying subject matter there can be different criteria, which will yield a different measurement or evaluation. For example, one responsible party might select the number of customer complaints resolved to the acknowledged satisfaction of the customer for the underlying subject matter of customer satisfaction; another responsible party might select the number of repeat purchases in the three months following the initial purchase.

~~3645.~~ Suitable criteria exhibit the following characteristics:

- (a) Relevance: ~~relevant~~ Relevant criteria ~~contribute to conclusions~~ result in subject matter information that assist decision-making by the intended users.

- (b) ~~Completeness: criteria~~ Criteria are sufficiently complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions by the intended users made on the basis of that subject matter information ~~conclusions in the context of the engagement circumstances are not omitted.~~ Complete criteria include, where relevant, benchmarks for presentation and disclosure.
- (c) ~~Reliability: reliable~~ Reliable criteria allow reasonably consistent measurement or evaluation or measurement of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified ~~different~~ practitioners.
- (d) ~~Neutrality: neutral~~ Neutral criteria contribute to conclusions result in subject matter information that are ~~is~~ free from bias.
- (e) ~~Understandability: understandable~~ Understandable criteria result in subject matter information that can be understood by the intended users. contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

~~46.~~ The evaluation or measurement of a subject matter on the basis of Vague descriptions of the practitioner's own expectations, or judgments and of an individual practitioner's experiences do ~~would~~ not constitute suitable criteria.

~~37~~47. ~~The practitioner assesses the suitability of criteria for a particular engagement by considering whether they reflect the above characteristics. The relative importance of each of the above characteristics when assessing the suitability of criteria to a particular engagement is a matter of professional judgment. The suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa. Criteria can either be established or specifically developed. Established criteria are those embodied in~~ may be prescribed by laws or regulations, or issued by authorized or recognized bodies of experts that follow a transparent due process (established criteria). Other criteria may be s ~~Specifically developed criteria are those designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement. Whether criteria are established or specifically developed affects the work that the practitioner carries out~~ needed to assess their suitability for a particular engagement, for example, in the absence of indications to the contrary, established criteria are presumed to be suitable if they are relevant to the intended users' information needs.

~~38~~48. ~~Criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated or measured.~~ Criteria are made available to the intended users in one or more of the following ways:

- (a) Publicly.

- (b) Through inclusion in a clear manner in the presentation of the subject matter information.
- (c) Through inclusion in a clear manner in the assurance report.
- (d) By general understanding, for example the criterion for measuring time in hours and minutes.

~~409~~ Criteria may also be available only to specific intended users, for example the terms of a contract, or criteria issued by an industry association that are available only to those in the industry because they are relevant only to a specific purpose (see also paragraph 39). ~~When 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 users or for that purpose.^{††}~~

Evidence

~~3950.~~ ~~The practitioner plans and performs an a~~Assurance engagements are planned and performed with an attitude of professional skepticism to obtain sufficient appropriate evidence in the context of the engagement about whether the subject matter information is free of material misstatement. ~~The practitioner~~Professional judgment needs to be exercised in considerings 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.

Professional Skepticism

~~4051.~~ ~~The practitioner plans and performs an assurance engagement with an attitude of p~~Professional skepticism is an attitude that includes being alert to, for example, evidence that is inconsistent with other evidence obtained, information that calls into question the reliability of documents and responses to inquiries to be used as evidence, and circumstances that suggest the need for procedures in addition to those required by relevant Assurance Standards. ~~recognizing that circumstances may exist that cause the subject matter information to be materially misstated. An attitude of professional skepticism means the practitioner 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. For example, an attitude of~~ Maintaining professional skepticism is necessary throughout the engagement process for the is necessary practitioner to, for example, to reduce the risk of overlooking suspicious unusual circumstances, of over generalizing when drawing conclusions from observations, and of using faulty inappropriate assumptions in determining the nature, timing and extent of evidence gathering procedures and evaluating the results thereof.

^{††} ~~[THIS FOOTNOTE MOVED TO TEXT IN PARAGRAPH 30]~~

52. Professional skepticism is necessary to the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of documents and responses to inquiries. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances.
- ~~4153.~~ 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, for example photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant. Unless the engagement involves assurance about the genuineness of documents, records and documents may be accepted as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner considers the reliability of information to be used as evidence.
54. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism.

Professional Judgment

- ~~4655.~~ Professional judgment is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and relevant Assurance Standards and the informed decisions required throughout the engagement cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:
- Materiality and engagement risk.
 - The nature, timing, and extent of procedures used to meet the requirements of relevant Assurance Standards and obtain evidence.
 - Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the overall objectives of relevant Assurance Standards. In particular, in the case of a limited assurance engagement, professional judgment is required in evaluating whether a level of assurance that is meaningful to the intended users has been obtained.
 - In the case of a direct engagement, applying the criteria to the subject matter, and if the practitioner selects or develops the applicable criteria, selecting or developing them. In the case of an attestation engagement, evaluating such judgments made by others.
 - The appropriate conclusions to draw based on the evidence obtained.

56. The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.
57. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm assist the practitioner in making informed and reasonable judgments.
58. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and measurement or evaluation principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's assurance report.
59. Professional judgment needs to be exercised throughout the engagement. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

Sufficiency and Appropriateness of Evidence

4260. The sufficiency and appropriateness of evidence are interrelated. Sufficiency is the measure of the quantity of evidence. The quantity of evidence needed is affected by the risks of the subject matter information being materially misstated (the higher the risks, 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). Obtaining more evidence, however, may not compensate for its poor quality.
61. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability in providing support for the practitioner's conclusion. 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.
4362. 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 external sources external to the entity, circumstances may exist that could affect the its reliability of the information obtained. 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 external independent sources ~~outside the entity~~.
- Evidence that is generated internally is more reliable when the related controls are effective.
- Evidence obtained directly by the practitioner (for example, observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of what was discussed).

~~1. Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.~~

~~4463. The practitioner ordinarily obtains m~~ More assurance is ordinarily obtained from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining evidence from different sources or of a different nature may either corroborate other evidence or indicate that an individual item of evidence is not reliable. ~~For example, corroborating information obtained from a source independent of the entity may increase the assurance the practitioner obtains from a representation from the responsible party. Conversely, w~~ When evidence obtained from one source is inconsistent with that obtained from another, the practitioner it is necessary to determines what additional evidence-gathering procedures are necessary needed to resolve the inconsistency.

~~4564.~~ In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance about subject matter information covering a period than about subject matter information at a point in time. In addition, conclusions provided on processes ordinarily are limited to the period covered by the engagement; the practitioner provides no conclusion about whether the process will continue to function in the specified manner in the future.

~~4665.~~ Whether sufficient appropriate evidence has been obtained on which to base the practitioner's conclusion is a matter of professional judgment, which involves The practitioner considering 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 practitioner 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.

Materiality

~~4766.~~ Materiality is relevant when ~~the practitioner planning and performing the assurance engagement, including when determining~~es the nature, timing and extent of ~~evidence-gathering~~ procedures, and when ~~assessing~~ evaluating whether the subject matter information is free of misstatement. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance, that is, for the same intended users, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.

~~67.~~ Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information. The practitioner's consideration of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered. When considering materiality, the practitioner understands and assesses 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 practitioner considers how the adopted presentation might influence the decisions of the intended users.

~~68.~~ Materiality is considered in the context of quantitative and qualitative factors and, when applicable, quantitative 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 assessment of materiality and the relative importance of qualitative and quantitative and qualitative factors when considering materiality in a particular engagement are is a matters for the practitioner's professional judgment.

~~69.~~ Materiality relates to the information covered by the practitioner assurance report. Therefore, when the engagement covers some, but not all aspects of the subject matter information, materiality is considered in relation to only that portion of the subject matter information that is covered by the engagement.

Assurance-Engagement Risk

~~970.~~ Subject matter information can fail to be properly expressed in the context of the underlying subject matter and the criteria, and can therefore be misstated, potentially to a material extent. This occurs when the subject matter information does not properly reflect the application of the criteria to measure or evaluate the underlying subject

~~matter, for example, when an entity's financial statements do not give a true and fair view of (or present fairly, in all material respects) its financial position, financial performance and cash flows in accordance with International Financial Reporting Standards, or when an entity's assertion that its internal control is effective is not fairly stated, in all material respects, based on COSO or CoCo.~~

~~4871. Assurance e~~Engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.¹² Engagement risk does not refer to or include the practitioner's business risks such as loss from litigation, adverse publicity, or other events arising in connection with a subject matter reported on. In a reasonable assurance engagement, the practitioner 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 practitioner'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 practitioner to obtain a meaningful level of assurance as the basis for a negative form of expression. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

72. Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore, "reasonable assurance" is less than absolute assurance, as a result of factors such as the following:

- 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.
- The use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence.

¹² ~~(a) This includes the risk, in those direct reporting engagements where the subject matter information is presented only in the practitioner's conclusion, that the practitioner inappropriately concludes that the underlying subject matter does, in all material respects, conform with the criteria, for example: "In our opinion, internal control is effective, in all material respects, based on XYZ criteria."~~

~~(b) In addition to assurance engagement risk, the practitioner is exposed to the risk of expressing an inappropriate conclusion when the subject matter information is not materially misstated, and risks through loss from litigation, adverse publicity, or other events arising in connection with an underlying subject matter reported on. These risks are not part of assurance engagement risk.~~

- In some cases, the characteristics of the subject matter when measured or evaluated against the applicable criteria.

~~4973.~~ 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)~~ Risks that the practitioner does not directly influence, which may consist of:

~~(i)~~ The susceptibility of the subject matter information to a material misstatement before consideration of any related controls (inherent risk); and

~~(ii)~~ The risk that a material misstatement that occurs in the subject matter information will not be prevented, or detected and corrected, on a timely basis by internal control (control risk); and

~~(b)~~ Risks that the practitioner does directly influence, which may consist of:

~~(i)~~ The risk that the procedures performed by the practitioner will not detect a material misstatement (detection risk); and

~~(ii)~~ In the case of a direct engagement, the risks associated with the practitioner's measurement or evaluation of the subject matter against the applicable criteria.

~~(a)~~ The risk that the subject matter information is materially misstated, which in turn consists of:

~~(i)~~ Inherent risk: the susceptibility of the subject matter information to a material misstatement, assuming that there are no related controls; and

~~(ii)~~ Control risk: the risk that a material misstatement that could occur will not be prevented, or detected and corrected, on a timely basis by related internal controls. When control risk is relevant to the subject matter, 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 misstatement that exists.

~~74.~~ The degree to which the practitioner considers each of these components is relevant to the engagement is affected by the engagement circumstances, in particular: by the nature of the subject matter and whether a reasonable assurance or a limited assurance engagement is being performed.

- The nature of the underlying subject matter and the subject matter information. For example, the concept of control risk may be more useful when the underlying subject matter relates to the preparation of information about an entity's performance than when it relates to information about the effectiveness of a controls or the existence of a physical condition.
- Whether a reasonable assurance or a limited assurance engagement is being performed. For example, in limited assurance attestation engagements the practitioner may often decide to obtain evidence by means other than tests of controls, in which case consideration of control risk may be less relevant than in a reasonable assurance attestation engagement on the same subject matter information.
- Whether it is a direct engagement or an attestation engagement. As noted in the previous paragraph, while the concept of control risk is relevant to attestation engagements, the broader concept of measurement or evaluation risk is relevant to direct engagements.

The consideration of risks is a matter of professional judgment, rather than a matter capable of precise measurement.

Nature, Timing and Extent of ~~Evidence-gathering~~ Procedures

~~5075.~~ A combination of procedures is typically used to obtain either reasonable assurance or limited assurance. Procedures may include: inspection; observation; confirmation; re-calculation; re-performance; analytical procedures; and inquiry. The exact nature, timing and extent of ~~evidence-gathering~~ procedures will vary from one engagement to the next. For many assurance engagements, ~~in theory~~, infinite variations in ~~evidence-gathering~~ procedures are possible ~~in theory~~. In practice, however, these are difficult to communicate clearly and unambiguously. The practitioner attempts to communicate them clearly and unambiguously and uses the form appropriate to a reasonable assurance engagement or a limited assurance engagement.¹³

~~51.~~ "Reasonable assurance" is a concept relating to accumulating evidence necessary for the practitioner to conclude in relation to the subject matter information taken as a whole. To be in a position to express a conclusion in the positive form required in a reasonable assurance engagement, it is necessary for the practitioner to obtain sufficient appropriate evidence as part of an iterative, systematic engagement process involving:

¹³ ~~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.~~

- ~~(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, re-calculation, re-performance, analytical procedures and inquiry. Such further procedures involve substantive procedures including, where applicable, obtaining corroborating information from sources independent of the responsible party, 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.~~

~~52. "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:~~

- ~~• 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.~~
- ~~• The use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence.~~
- ~~• In some cases, the characteristics of the subject matter when evaluated or measured against the identified criteria.~~

~~5376. Both reasonable assurance and limited assurance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic engagement process that includes obtaining an understanding of the underlying subject matter and other engagement circumstances.~~

~~77. A reasonable assurance engagement involves:~~

- ~~(a) Based on an understanding of the underlying subject matter and other engagement circumstances, identifying and assessing the risks of material misstatement;~~

- (b) Responding to assessed risks, by (i) developing and implementing overall responses, and (ii) determining the nature, timing and extent of procedures that are clearly responsive to the assessed risks, and performing those procedures; and
- (c) Based on the procedures performed and the evidence obtained, evaluating before the completion of the engagement whether the earlier assessment of the risks that the subject matter information may be materially misstated remains appropriate.

78. 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 pronouncements to provide guidance on procedures for gathering sufficient appropriate evidence for a limited assurance engagement. For example, ISRE 2400, "Engagements to Review Financial Statements" A subject matter-specific Assurance Standard may establish that, for example, sufficient appropriate evidence for a particular type of limited assurance engagement reviews of financial statements is obtained primarily through analytical procedures and inquiries. In the absence of a relevant pronouncement subject matter-specific Assurance Standards for other types of limited assurance engagements, however, the procedures for gathering sufficient appropriate evidence may or may not primarily be analytical procedures and inquiries and will vary with the circumstances of the engagement, in particular, the underlying subject matter, and the information 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 practitioner becomes aware of a matter that leads the practitioner to question whether a material modification should be made to the subject matter information, the practitioner pursues the matter by performing other procedures sufficient to enable the practitioner to report. Determining the exact nature, timing and extent of procedures is a matter of professional judgment and will vary from one engagement to the next.

79. A limited assurance engagement involves:

- (a) Based on an understanding of the underlying subject matter and other engagement circumstances, and consideration of risks of material misstatement, determining the nature, timing and extent of procedures to be performed to obtain a level of assurance that is meaningful to the intended users;
- (b) Performing those procedures; and
- (c) Designing and performing additional procedures, as appropriate, if the practitioner becomes aware of a matter that causes the practitioner to believe the subject matter information may be materially misstated.

Quantity and Quality of Available Evidence

5480. The quantity or quality of available evidence is affected by:

- (a) The characteristics of the underlying subject matter and subject matter information. For example, less objective evidence might be expected when ~~information about the subject matter~~ information is future oriented rather than historical (see paragraph ~~3241~~); and
- (b) ~~Other cCircumstances of the engagement other than the characteristics of the subject matter, such as~~ when evidence that could reasonably be expected to exist is not available because of, for example, the timing of the practitioner's appointment, an entity's document retention policy, or a restriction imposed by the responsible party.

Ordinarily, available evidence will be persuasive rather than conclusive.

~~5581.~~ An unqualified conclusion is not appropriate for either ~~type of a~~ reasonable assurance or a limited assurance engagement ~~in the case of a material limitation on the scope of the practitioner's work, that is, when:~~

- (a) Circumstances prevent the practitioner from obtaining evidence required to reduce ~~assurance~~ engagement risk to the appropriate level; or
- (b) ~~The responsible party or the engaging A party to the engagement~~ imposes a restriction that prevents the practitioner from obtaining evidence required to reduce ~~assurance~~ engagement risk to the appropriate level.

Assurance Report

~~5682.~~ The practitioner forms a conclusion on the basis of the evidence obtained, and provides a written report containing a clear expression of that conclusion that conveys the assurance obtained about the subject matter information. ~~ISAs, ISREs and ISAEs Assurance Standards establish basic elements for assurance reports. In addition, the practitioner considers other reporting responsibilities, including communicating with those charged with governance when it is appropriate to do so.~~

~~5783.~~ In an ~~assertion-based~~ attestation engagement, the practitioner's conclusion can be worded either:

- (a) In terms of a statement made by the measurer or evaluator, that is, the party responsible for measuring or evaluating the underlying subject matter party's assertion (for example: "In our opinion *the responsible party's assertion statement* that internal control is effective, in all material respects, based on *XYZ criteria*, is fairly stated"); or
- (b) ~~Directly~~ In terms of the underlying subject matter and the criteria (for example: "In our opinion internal control is effective, in all material respects, based on *XYZ criteria*").

In a ~~direct reporting~~ engagement, the practitioner's conclusion is worded ~~directly as for~~ (b) above, that is in terms of the underlying subject matter and the criteria.

<u>Can the practitioner's conclusion be worded in terms of:</u>		
	<u>The underlying subject matter and the criteria?</u>	<u>A statement made by the measurer or evaluator who is not the practitioner?</u>
<u>Attestation engagement</u>	<u>Yes</u>	<u>Yes</u>
<u>Direct engagement</u>	<u>Yes</u>	<u>No</u> <u>(the practitioner is the measurer or evaluator in a direct engagement, so there is no statement made by another party)</u>

~~5884.~~ In a reasonable assurance engagement, the practitioner's ~~expresses the conclusion is expressed in the positive form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter,~~ for example: "In our opinion internal control is effective, in all material respects, based on XYZ criteria." This form of expression conveys "reasonable assurance." Having performed ~~evidence-gathering~~ procedures of a nature, timing and extent that were reasonable given the characteristics of the underlying subject matter and other relevant engagement circumstances described in the assurance report, the practitioner has obtained sufficient appropriate evidence to reduce ~~assurance~~ engagement risk to an acceptably low level.

~~5985.~~ In a limited assurance engagement, the practitioner's ~~expresses the conclusion is expressed in the negative form that conveys that, based on the procedures performed, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated,~~ 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." This form of expression conveys a level of "limited assurance" that is ~~proportional to~~ commensurate with the level of the practitioner's ~~evidence-gathering~~ procedures given the characteristics of the underlying subject matter and other engagement circumstances described in the assurance report.

86 The practitioner may choose 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 include other information and

explanations that are not intended to affect the practitioner's conclusion. As well as the basic elements, long-form reports may describe in detail the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. Whether to include any such information depends on its significance to the information needs of the intended users.

87. The practitioner's conclusion on the subject matter information is clearly separated from any emphasis of matter, findings, recommendations or similar information included in the assurance report, and the wording used makes it clear that findings, recommendations or similar information is not intended to detract from the practitioner's conclusion.

~~6088.~~ The A-practitioner's does not express an unqualified conclusion is modified for either type of assurance engagement when the following circumstances exist and, in the practitioner's professional judgment, the effect of the matter is or may be material:

(a) ~~There is a limitation on the scope of the practitioner's work (see paragraph 55). The practitioner expresses~~ The practitioner is unable to obtain sufficient appropriate evidence in the context of the engagement, in which case a scope limitation exists and a qualified conclusion or a disclaimer of conclusion is expressed depending on how the materiality or pervasiveness of the limitation is. In some cases the practitioner considers withdrawing from the engagement.

(b) ~~In those cases, w~~ Whenre:

(i) The practitioner's conclusion is worded in terms of a statement made by the measurer or evaluator~~the responsible party's assertion~~, and that ~~assertion statement is incorrect~~not fairly stated, in all a material respects; or

(ii) The practitioner's conclusion is worded ~~directly~~ in terms of the underlying subject matter and the criteria, and the subject matter information is not free from materiality misstatement~~Footnote 11: In those direct reporting engagements where the subject matter information is presented only in the practitioner's conclusion, and the practitioner concludes that the subject matter information does not, in all material respects, conform with the criteria, for example: "In our opinion, except for [...], internal control is effective, in all material respects, based on XYZ criteria," such a conclusion would also be considered to be qualified (or adverse as appropriate).~~

In such cases, the practitioner expresses a qualified or adverse conclusion is expressed, depending on the materiality and pervasiveness of the matter~~how material or pervasive the matter is.~~

89. A qualified conclusion is expressed as being “except for” the effects, or possible effects, of the matter to which the qualification relates.
90. In those cases where the practitioner’s unqualified conclusion would be worded in terms of a statement made by the measurer or evaluator, and that statement has identified and properly described that the subject matter information is materially misstated:
- (a) A qualified or adverse conclusion worded in terms of the underlying subject matter and the criteria is expressed; or
 - (b) If specifically required by the terms of the engagement to word the conclusion in terms of statement made by the measurer or evaluator, an unqualified conclusion is expressed but emphasizes the matter by specifically referring to it in the assurance report.
91. ~~If~~ When it is discovered after the engagement has been accepted, that the criteria are unsuitable or the underlying subject matter is not appropriate for an assurance engagement. The practitioner expresses:
- (a) A qualified conclusion or adverse conclusion is expressed depending on how material or pervasive the matter is, when the unsuitable criteria or inappropriate underlying subject matter is likely to mislead the intended users; or
 - (b) A qualified conclusion or a disclaimer of conclusion is expressed depending on how material or pervasive the matter is, in other cases.

In some cases the practitioner considers withdrawing from the engagement.

92. A qualified conclusion is expressed when the effects, or possible effects, of a matter are 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, or possible effects, of the matter to which the qualification relates.

Other Matters

Other Communication Responsibilities

93. In some cases, pursuant to the terms of the engagement and other engagement circumstances, matters may come to the attention of the practitioner that the practitioner communicates with management or those charged with governance of the entity, another party to the engagement, or others.

Documentation

94. Engagement documentation provides a record of the basis for the assurance report when it is prepared on a timely basis and is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand:
- (a) The nature, timing and extent of the procedures performed to comply with relevant Assurance Standards and applicable legal and regulatory requirements;
 - (b) The results of the procedures performed, and the evidence obtained; and
 - (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.
95. Engagement documentation includes how the practitioner addressed any inconsistency between information identified by the practitioner and the practitioner's final conclusion regarding a significant matter.

Inappropriate Use of the Practitioner's Name

~~6796.~~ A practitioner is associated with an underlying subject matter when the practitioner reports on information about that underlying subject matter or consents to the use of the practitioner's name in a professional connection with that underlying 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 an underlying subject matter, the practitioner requires the party to cease doing so. The practitioner also considers what other steps may be needed, such as informing any known third party users of the inappropriate use of the practitioner's name or seeking legal advice.

Public Sector Perspective

~~7. This Framework is relevant 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, the guidance in footnote 7 should be adopted.~~

Pronouncements Issued by the IAASB, and Their Relationship to Each Other and the IESBA Code of Ethics

This Appendix illustrates the ambit of pronouncements issued by the IAASB, and their relationship to each other and to the IESBA Code of Ethics for Professional Accountants.



Attestation Engagements and Direct Engagements

This Appendix outlines the differences between an attestation engagement and a direct engagement.

1. In an attestation engagement, the measurer or evaluator, who is not the practitioner, measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information. Subject matter information can fail to be properly expressed in the context of the underlying subject matter and the criteria, and can therefore be misstated, potentially to a material extent. The role of the practitioner in an attestation engagement is to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information, as prepared by the measurer or evaluator, is free from material misstatement.
2. In a direct engagement, the practitioner measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information. In some cases, the practitioner's conclusion is the subject matter information. Depending on the underlying subject matter:
 - (a) The outcome of the measurement or evaluation in a direct engagement may be similar to a report or statement prepared by the measurer or evaluator in an attestation engagement. In other circumstances, however, the outcome, that is, the subject matter information, may be reflected in the description of the findings and basis for the practitioner's conclusion in a long-form assurance report; and
 - (b) The practitioner may use data collected or compiled by others. For example, the data may come from an information system maintained by the responsible party.
3. In addition to measuring or evaluating the underlying subject matter, the practitioner in a direct engagement also applies assurance skills and techniques to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information is materially misstated. The practitioner often obtains 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.
4. The value of a direct engagement lies in the combination of:
 - (a) The independence of the practitioner from the underlying subject matter, the engaging party, intended users and the responsible party. The practitioner is not independent of the subject matter information because the practitioner created that subject matter information; and
 - (b) — The assurance skills and techniques applied when measuring or evaluating the underlying subject matter, which results in the accumulation of evidence that is of a

similar quantity and quality as for an attestation engagement. It is this obtaining of sufficient appropriate evidence that distinguishes a direct engagement from a mere compilation. To illustrate this point, if a practitioner were compiling an entity's greenhouse gas statement, the practitioner would not, for example, test the calibration of monitoring devices. In a direct engagement, however, the practitioner would, where relevant, either calibrate monitoring devices as part of the measurement process, or test the calibration of monitoring devices performed by others to the same extent as would be the case if the engagement were an attestation engagement.

Differences Between Reasonable Assurance Engagements and Limited Assurance Engagements

This Appendix outlines the differences between a reasonable assurance engagement and a limited assurance engagement discussed in the Framework (see in particular the referenced paragraphs).

	<u>Reasonable assurance engagement</u>	<u>Limited assurance engagement</u>
<u>Reducing engagement risk</u>	<u>In a reasonable assurance engagement the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. (Paragraph 17)</u>	<u>In a limited assurance engagement the practitioner 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. The practitioner's conclusion is expressed in a form that conveys that, based on the procedures performed, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. (Paragraph 18)</u>
<u>Procedures³²</u>	<p><u>Sufficient appropriate evidence is obtained by applying assurance skills and techniques as part of a systematic engagement process that includes obtaining an understanding of the underlying subject matter and other engagement circumstances, and:</u></p> <p><u>(a) Based on that understanding, identifying and assessing the risks of material misstatement;</u></p> <p><u>(b) Responding to assessed risks, by (i) developing and implementing overall responses, and (ii) determining the nature, timing and extent of procedures that are clearly responsive to the assessed risks, and performing those procedures; and</u></p>	<p><u>The set of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful to the intended users. Sufficient appropriate evidence is obtained by applying assurance skills and techniques as part of a systematic engagement process that includes obtaining an understanding of the underlying subject matter and other engagement circumstances, and:</u></p> <p><u>(a) Based on that understanding and consideration of risks of material misstatement, determining the nature, timing and extent of</u></p>

³² A detailed discussion of requirements is only possible within ISAEs for specific subject matters.

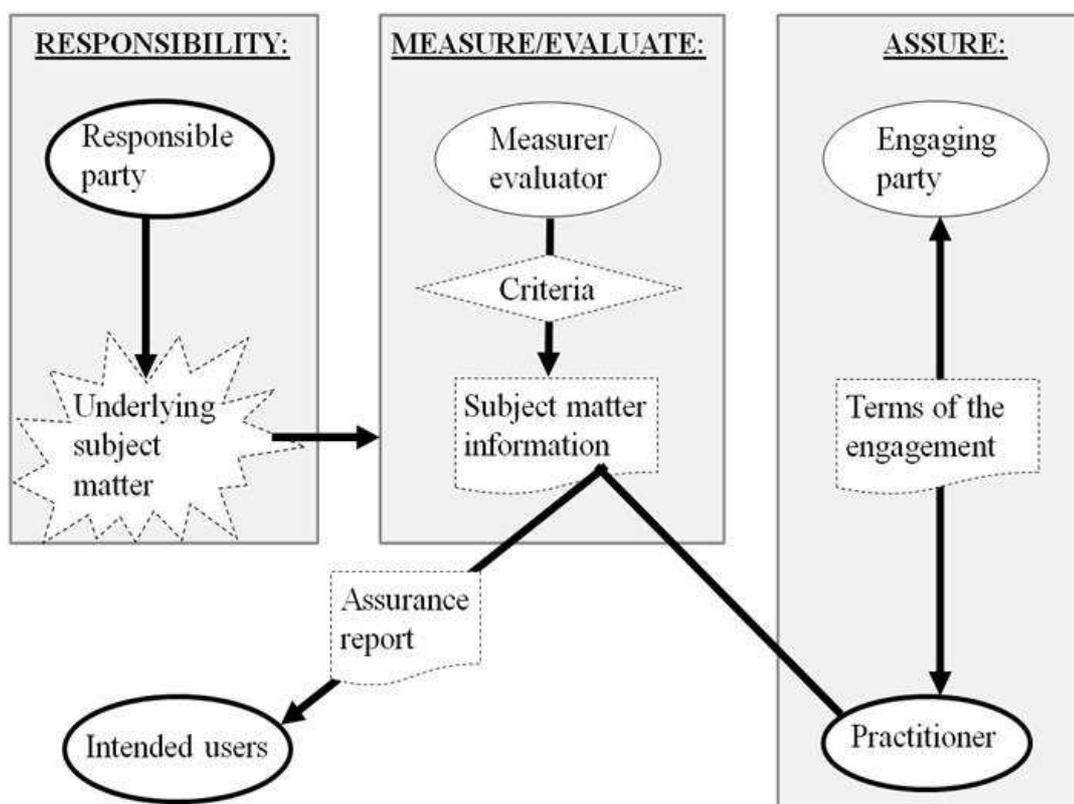
	<u>Reasonable assurance engagement</u>	<u>Limited assurance engagement</u>
	<p>(c) <u>Based on the procedures performed and the evidence obtained, evaluating before the completion of the engagement whether the practitioner's assessment of the risks that the subject matter information may be materially misstated remain appropriate. (Paragraphs 76 and 77)</u></p>	<p><u>procedures to be performed to obtain a level of assurance that is meaningful to the intended users;</u></p> <p>(b) <u>Performing those procedures; and</u></p> <p>(c) <u>If the practitioner becomes aware of a matter that causes the practitioner to believe the subject matter information may be materially misstated, designing and performing additional procedures as appropriate.</u></p> <p><u>The procedures performed in a limited assurance engagement are deliberately limited relative to a reasonable assurance engagement. (Paragraphs 76 and 78–79)</u></p>
<u>The assurance report</u>	<p><u>The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter.. (Paragraphs 17 and 84)</u></p>	<p><u>The limited assurance report communicates a description of the engagement circumstances, including the limited nature of the assurance obtained, and an informative summary of the work performed as the basis for the practitioner's conclusion that includes the statement that the practitioner's procedures are more limited than for a reasonable assurance engagement, and consequently they do not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement. The expression of the conclusion is in a form that conveys that, based on the procedures performed, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated (Paragraph 18 and 85)</u></p>

Type of engagement	Objective	Evidence-gathering procedures ³³	The assurance report
Reasonable assurance engagement	A reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement, as the basis for a positive form of expression of the practitioner's conclusion (Paragraph 11)	<p>Sufficient appropriate evidence is obtained as part of a systematic engagement process that includes:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the engagement circumstances; • Assessing risks; • Responding to assessed risks; • Performing further procedures using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry. Such further procedures involve substantive procedures, including, where applicable, obtaining corroborating information, and depending on the nature of the subject matter, tests of the operating effectiveness of controls; and • Evaluating the evidence obtained (Paragraphs 51 and 52) 	Description of the engagement circumstances, and a positive form of expression of the conclusion (Paragraph 58)

³³ — A detailed discussion of evidence-gathering requirements is only possible within ISAEs for specific subject matters.

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Type of engagement	Objective	Evidence-gathering procedures ³³	The assurance report
<p>Limited assurance engagement</p>	<p>A reduction in assurance 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 a negative form of expression of the practitioner's conclusion (Paragraph 11)</p>	<p>Sufficient appropriate evidence is obtained as part of a systematic engagement process that includes obtaining an understanding of the subject matter and other engagement circumstances, but in which procedures are deliberately limited relative to a reasonable assurance engagement (Paragraph 53)</p>	<p>Description of the engagement circumstances, and a negative form of expression of the conclusion (Paragraph 59)</p>

The Parties to an Assurance Engagement

1. All assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. Depending on the engagement circumstances, there may also be a separate role of measurer or evaluator and or engaging party.
2. The above diagram illustrates how the following roles relate to an assurance engagement:
 - (a) The responsible party is responsible for the underlying subject matter.
 - (b) The measurer or evaluator uses the criteria to measure or evaluate the underlying subject matter resulting in the subject matter information.
 - (c) The engaging party agrees the terms of the engagement with the practitioner.
 - (d) The practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of the underlying subject matter against criteria.
 - (e) The intended users make decisions on the basis of the subject matter information. The intended users are the individual(s) or organization(s), or class(es) thereof for whom the practitioner prepares the assurance report.

3. The following observations can be made about these roles:

- Every assurance engagement has at least a responsible party and intended users, in addition to the practitioner.
- The practitioner cannot be the responsible party, the engaging party or an intended user.
- In a direct engagement, the practitioner is also the measurer or evaluator.
- In an attestation engagement, the responsible party, or someone else, but not the practitioner, can be the measurer or evaluator.
- Where the practitioner has measured or evaluated the underlying subject matter against the criteria, the engagement is a direct engagement. The character of that engagement cannot be changed to an attestation engagement by another party assuming responsibility for the measurement or evaluation, for example, by the responsible party attaching a statement to the subject matter information accepting responsibility for it.
- The responsible party can be the engaging party.
- In many attestation engagements the responsible party may also be the measurer or evaluator, and the engaging party. An example is when an entity engages a practitioner to perform an assurance engagement regarding a report it has prepared about its own sustainability practices. An example of when the responsible party is different from the measurer or evaluator, is when the practitioner is engaged to perform an assurance engagement regarding a report prepared by a government organization about a private company's sustainability practices.
- In an attestation engagement, the measurer or evaluator ordinarily provides the practitioner with a written representation about the subject matter information. In some cases, the practitioner may not be able to obtain such a representation, for example, when the engaging party is not the measurer or evaluator.
- The responsible party can be one of the intended users, but not the only one.
- The responsible party, the measurer or evaluator, and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the executive board of that entity. The relationship between the responsible party, the measurer or evaluator, 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 (an intended user) 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 (the responsible party), but for which senior management is ultimately responsible.

- An engaging party that is not also the responsible party can be the intended user.

Categorization of Underlying Subject Matters

The table below shows a categorization of the range of possible underlying subject matters with some examples. For some categories no example is given because it is unlikely that assurance engagements with respect to information in these categories would be undertaken. The categorization is not necessarily complete, the categories are not necessarily mutually exclusive, and some underlying subject matter or subject matter information may have components in more than one category, for example, integrated reporting and corporate social responsibility reporting will likely have both historical and future oriented information and both financial and non-financial information. Also, in some cases, the examples are the subject matter information, in other cases they are the underlying subject matter or merely an indication of the type of question that information could assist with, whichever is more meaningful in the circumstances.

<u>Information about:</u>		<u>Historical Information</u>	<u>Future Oriented Information</u>
<u>Financial</u>	<u>Performance</u>	An attestation engagement on this information would be an audit or review to be conducted in accordance with the ISAs or ISREs	<ul style="list-style-type: none"> • Forecast/projected cash flow
	<u>Position</u>		<ul style="list-style-type: none"> • Forecast/projected financial position • An entity's creditworthiness
<u>Non-Financial</u>	<u>Performance/ Use of Resources/ Value for Money</u>	<ul style="list-style-type: none"> • Greenhouse Gas Statement • KPIs • Statement on effective use of resources • Statement on Value for Money 	<ul style="list-style-type: none"> • Expected emissions reductions attributable to a new technology, or GHGs to be captured by planting trees • Statement that a proposed action will provide value for money • Corporate social responsibility reporting
	<u>Condition</u>	<ul style="list-style-type: none"> • Description of a system/process as implemented at a point in time • Physical characteristics, for example, the size of leased property 	
<u>System/ Process</u>	<u>Description</u>	<ul style="list-style-type: none"> • The description of a system of internal control 	
	<u>Design</u>	<ul style="list-style-type: none"> • The design of controls at a service organization 	<ul style="list-style-type: none"> • The design of proposed controls for a forthcoming production process
	<u>Operation/ Performance</u>	<ul style="list-style-type: none"> • The operating effectiveness of procedures for hiring and training staff 	

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<u>Information about:</u>		<u>Historical Information</u>	<u>Future Oriented Information</u>
<u>Aspects of Behavior</u>	<u>Compliance</u>	<ul style="list-style-type: none"> • <u>An entity's compliance with e.g., loan covenants, or specific legal or regulatory requirements</u> 	
	<u>Human Behavior</u>	<ul style="list-style-type: none"> • <u>Evaluation of audit committee effectiveness</u> 	
	<u>Other</u>	<ul style="list-style-type: none"> • <u>The fitness for purpose of a software package</u> 	

ISAE 3402, Assurance Reports on Controls at a Service Organization

- A. Replacing “~~(an) assertion(s),~~” with “(a) statement(s)” wherever it appears except in paragraph A1 (once) and paragraph A23 (four times).
- B. Deleting the struck through text and inserting the underlined text in the following paragraphs:
2. The “International Framework for Assurance Engagements” (the Assurance Framework) states that an assurance engagement may be a “reasonable assurance” engagement or a “limited assurance” engagement; that an assurance engagement may be either an “~~assertion-based attestation~~” engagement or a “~~direct reporting~~” engagement; and, that the assurance conclusion for an ~~assertion-based attestation~~ engagement can be worded either in terms of a statement made by the measurer or evaluator ~~the responsible party’s assertion or directly~~ in terms of the underlying subject matter and the criteria. This ISAE only deals with ~~assertion-based attestation~~ engagements that convey reasonable assurance, with the assurance conclusion worded ~~directly~~ in terms of the subject matter and the criteria.
 5. The performance of assurance engagements other than audits or reviews of historical financial information requires the service auditor to comply with ISAE 3000. ISAE 3000 includes requirements in relation to such topics as ~~engagement acceptance, continuance, planning and performing the engagement, obtaining evidence, and documentation that apply to all such assurance engagements, including engagements in accordance with this ISAE. This ISAE expands on how ISAE 3000 is to be applied in a reasonable assurance engagement to report on controls at a service organization. The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ISAE and ISAE 3000.~~
 6. Compliance with ISAE 3000 requires, among other things, compliance with Parts A and B of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code) related to assurance engagements, or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding~~that the service auditor comply with the International Federation of Accountants’ Code of Ethics for Professional Accountants (IFAC Code), and implement quality control procedures that are applicable to the individual engagement.~~
 7. This ISAE is effective for assurance engagements where the service auditor’s assurance report covers periods ending on or after June 15, 2011.
 15. As required by ISAE 3000, the service auditor shall determine whether the criteria to be used by ~~assess whether~~ the service organization ~~has used suitable criteria in~~ preparing the description of its system, in evaluating whether controls are suitably

designed, and, in the case of a type 2 report, in evaluating whether controls are operating effectively, are suitable.

19. ~~When planning and performing the engagement~~In complying with paragraph 36 of ISAE 3000, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls. (Ref: Para. A16-A18)
20. In complying with paragraph 37 of ISAE 3000, ~~t~~The service auditor shall obtain an understanding of the service organization's system, including controls that are included in the scope of the engagement. (Ref: Para. A19-A20)

Heading above paragraph 43: **Considering Subsequent Events**

- A5. The service auditor is subject to relevant independence requirements, which ordinarily comprise Parts A and B of the IFAC Code together with national requirements that are more restrictive. In performing an engagement in accordance with this ISAE, the ~~IFAC-IESBA~~ Code does not require the service auditor to be independent from each user entity.
- A14. ISAE 3000 requires the service auditor, among other things, to determine whether the criteria to be used assess the ~~are~~ suitability of criteria, and the ~~appropriateness of the~~ underlying subject matter is appropriate. The subject matter is the underlying condition of interest to intended users of an assurance report. The following table identifies the subject matter and minimum criteria for each of the opinions in type 2 and type 1 reports.
- A44. The ~~IFAC-IESBA~~ Code requires that ...
- A46. ISQC 1 (or ~~national~~ other professional requirements, or requirements in laws or regulations, regarding the firm's responsibility for its system of quality control, that are at least as demanding) requires firms to establish policies and procedures for the timely completion of the assembly of engagement files...
- C. Inserting the following text above the heading *Service Auditor's Responsibilities* in Examples 1 and 2 in Appendix 2:

Independence, Quality Control and Expertise

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

In accordance with International Standard on Quality Control 1,³⁴ [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

This engagement was conducted by a multidisciplinary team including assurance practitioners, and outsourcing and IT experts.

Proposed ISAE 3410, Assurance Engagements on Greenhouse Gas Statements

A. Deleting the struck through text and inserting the underlined text in the following paragraphs:

5. The *International Framework for Assurance Engagements* (the Assurance Framework) notes that an assurance engagement may be either an ~~assertion-based~~ attestation engagement or a direct ~~reporting~~ engagement. This ISAE deals only with ~~assertion-based~~ attestation engagements.

9. The performance of assurance engagements other than audits or reviews of historical financial information requires the practitioner to comply with ISAE 3000. ISAE 3000 includes requirements in relation to such topics as ~~engagement acceptance~~ continuance, ~~planning and performing the engagement~~, obtaining evidence, and documentation that apply to all assurance engagements, including engagements in accordance with this ISAE. This ISAE expands on how ISAE 3000 is to be applied in an assurance engagement to report on an entity's GHG statement. ~~The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides context for understanding this ISAE and ISAE 3000.~~

10. Compliance with ISAE 3000 requires, among other things, compliance with Parts A and B of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code) related to assurance engagements, or other professional requirements, or requirements imposed by laws or regulations, that are at least as demanding ~~that the practitioner comply with the independence and other requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) and implement quality control procedures that are applicable to the individual engagement.~~ (Ref: Para. A5–A6)

15. The engagement partner shall, in complying with paragraphs 27(b), 27(c), and 28(a) of ISAE 3000: ...

16. In order to establish whether the preconditions for the engagement are present in accordance with paragraph 18 of ISAE 3000:

³⁴ ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements

...

- (b) The practitioner shall determine whether the criteria to be used are ~~assess the suitability of the applicable criteria~~ as required by ISAE 3000. ...

Heading above paragraph 17: ~~Agreement on~~ Terms of the Engagement Terms

17. The ~~agreed~~ terms of the engagement required to be agreed by ISAE 3000 shall include: ...
19. When ~~establishing the overall~~ planning the engagement strategy, the practitioner shall determine materiality for the GHG statement.
- 22L. In obtaining the understanding required by paragraph 37 of ISAE 3000, ~~The~~ practitioner shall: ...
- 22R. In obtaining the understanding required by paragraph 37 of ISAE 3000, ~~The~~ practitioner shall ...
24. In obtaining the understanding required by paragraph 37 of ISAE 3000, ~~The~~ practitioner shall obtain an understanding of ...

Heading above paragraph 59: **Considering Subsequent Events**

69. The practitioner shall form a conclusion about ~~conclude as to~~ whether the practitioner has obtained reasonable or limited assurance, as appropriate, about the GHG statement. ...
- A20. ISAE 3000 requires the practitioner to determine whether ~~assess the appropriateness of the subject matter~~ is appropriate. In the case of a GHG statement, the entity's emissions (and removals and emissions deductions if applicable) are the subject matter of the engagement ...
- A83. This ISAE distinguishes the practitioner's responsibilities in relation to compliance with two different categories of laws and regulations as follows:

...

- (b) Other laws and regulations that do not have a direct effect on the determination of the quantities and disclosures in the GHG statement, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, or compliance with environmental regulations). Maintaining Planning and performing an engagement with professional skepticism throughout the engagement, as required by ISAE 3000 ...

A120. ISAE 3000 requires the practitioner to prepare on a timely basis engagement documentation that provides a record of the basis for the assurance report~~document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with ISAEs...~~



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