

FRAMEWORK FOR ASSURANCE ENGAGEMENTS

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Introduction

1. The purpose of this Framework is to define, and describe the elements of an assurance engagement. It provides a frame of reference for the development by the IAASB of International Standards on Auditing (ISAs) for audits and reviews of historical financial information and International Standards on Assurance Engagements (ISAEs) for assurance engagements on other subject matters.

Definition of an Assurance Engagement

2. “Assurance engagement” means an engagement in which a professional accountant expresses a conclusion designed to enhance the degree of confidence an intended user can have about the evaluation or measurement of a subject matter, that is the responsibility of a third party, against relevant criteria.

TYPES OF ASSURANCE ENGAGEMENTS

3. There is a broad range of assurance engagements, including the following:
- Engagements to report internally or externally (see paragraph 11).
 - Engagements performed by professional accountants in public practice or professional accountants not in public practice (see paragraph 15).
 - Engagements to report on different types of subject matter (see paragraph 22).
 - Assertion-based or direct reporting engagements (see paragraph 44).
 - Engagements in the private or the public sector.
4. In addition, assurance engagements can be categorized into review-level engagements and audit-level engagements. The distinction between these two is summarized in the table below (see in particular paragraphs 39 and 45-47):

	Level of assurance risk¹	Nature, timing and extent of procedures	Conclusion in the professional accountant's report	Assurance conveyed
Review-level engagement	Moderate	Ordinarily inquiry and analytical procedures only, based on a sound understanding of the entity, the subject matter and the objectives of the engagement	Negative form of expression	The professional accountant's report conveys "limited assurance"
Audit-level engagement	Low	Also includes obtaining corroborating evidence through procedures such as: an assessment of internal control systems, tests of records and tests of responses to inquiries, using techniques such as inspection, observation, confirmation and re-computation	Positive form of expression	The professional accountant's report conveys "reasonable assurance"

DISTINGUISHING ASSURANCE ENGAGEMENTS FROM OTHER ENGAGEMENTS

5. Not all engagements performed by professional accountants are assurance engagements. Other engagements frequently performed by professional accountants that are not covered by this Framework include:
- agreed-upon procedures;
 - compilation of financial or other information;

¹ Assurance risk is the risk that the professional accountant will fail to detect, and report appropriately, when the subject matter does not conform, in all material respects, with the identified criteria. In addition to assurance risk, the professional accountant is exposed to a risk through loss from litigation, adverse publicity, or other events arising in connection with a subject matter reported on. The latter risk is not part of assurance risk.

- tax consulting and preparation of tax returns where no conclusion conveying assurance is expressed; and
 - consulting services².
6. An assurance engagement may be part of a larger engagement, for example, a business acquisition study may include an examination of prospective financial information. In such circumstances, ISAs and ISAEs apply only to the assurance portion of the engagement³.
 7. While some users may choose to derive some assurance from a professional accountant's involvement with an engagement, this does not mean that the engagement is an assurance engagement. For example, an agreed-upon procedures engagement, in which the professional accountant provides a report of factual findings as a result of undertaking agreed procedures, is not an assurance engagement. While the intended user of the report may derive some assurance from the report of factual findings the professional accountant does not express a conclusion about the subject matter. Rather, the intended users assess the procedures and findings and draw their own conclusions. However, where, in the judgment of the professional accountant, the procedures agreed to be performed are appropriate to support the expression of a conclusion that conveys assurance about the subject matter, and the professional accountant intends to express a conclusion, then the engagement becomes an assurance engagement governed by this Framework.
 8. A professional accountant does not undertake an assurance engagement unless that engagement exhibits all the elements noted in paragraph 9. A report issued by a professional accountant in connection with an engagement that is not an assurance engagement but which a user of the report could otherwise reasonably mistake for an assurance engagement, is to be written so as to clearly distinguish it from a report on an assurance engagement. For example, a professional accountant performing an engagement that is intended solely to assist an organization in improving its controls over the privacy of client data is not to issue a report as a result of that engagement conveying assurance as to the effectiveness of such controls. It is not sufficient for a report that could otherwise reasonably be mistaken for a report on an assurance engagement to merely exclude reference to ISAs or ISAEs.

Elements of an Assurance Engagement

9. An assurance engagement exhibits all of the following elements:
 - (a) a three party relationship involving:

- ² Consulting services employ the professional accountant's technical skills, education, observations, experiences, and knowledge of the consulting process. The consulting process is an analytical process that typically involves some combination of activities relating to objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results and sometimes implementation and follow-up. Where a report is issued, it is generally in the 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 practitioner and the client. Any service that meets the definition of an assurance engagement is not a consulting service but an assurance engagement.
- ³ An engagement that includes professional opinions, views or wording from which a user may derive some assurance is not an assurance engagement under this Framework if:
 - (a) those opinions, views or wording are merely incidental to the overall engagement;
 - (b) pursuant to a written understanding with the intended user, the engagement is not intended to be an assurance engagement; and
 - (c) the engagement is not represented as an assurance engagement in the professional accountant's report.

- (i) a professional accountant;
- (ii) a responsible party; and
- (iii) an intended user;
- (b) a subject matter;
- (c) identified, suitable criteria that are available to the intended user;
- (d) sufficient appropriate evidence; and
- (e) a report that includes a conclusion conveying the assurance the professional accountant has obtained.

THREE PARTY RELATIONSHIP

10. Assurance engagements involve three separate parties: a professional accountant, a responsible party and an intended user. The professional accountant obtains assurance and provides a conclusion to the intended user about a subject matter that is the responsibility of another party.
11. The responsible party and the intended user will often be from separate organizations but need not be. A responsible party and an intended user may both be within the same organization, for example, where there is a two-tier board structure, the supervisory board may seek assurance about information provided by the management board of that organization. The relationship between the responsible party and the intended user needs to be viewed within the context of a specific engagement and may supersede more traditionally defined responsibility lines. For example, an entity's governing body may engage a professional accountant to perform an assurance engagement on a particular aspect of the entity's activities for which the governing body is ultimately responsible.

PROFESSIONAL ACCOUNTANT

12. The IFAC *Code of Ethics for Professional Accountants* (the Code) defines professional accountants as those persons who are members of an IFAC member body, whether they be in public practice (as a sole practitioner, partnership or corporate body), industry, commerce, the public sector or education. The term "professional accountant" in this Framework includes the term "auditor" but also recognizes that assurance engagements deal with a broader range of subject matters than historical financial information.

Ethical principles

13. The fundamental principles that all professional accountants have to observe are set out in Part A of the Code. Those principles are:
 - (a) integrity;
 - (b) objectivity;
 - (c) professional competence and due care;
 - (d) confidentiality;
 - (e) professional behavior; and
 - (f) application of technical standards.
14. Professional accountants in public practice also observe Part B of the Code, which includes a conceptual approach to independence that takes into account, for each assurance engagement, threats to independence, accepted safeguards and the public interest. It requires firms and members of assurance teams to identify and evaluate circumstances and

- relationships that create threats to independence and to take appropriate action to eliminate these threats or to reduce them to an acceptable level by the application of safeguards.
15. The requirements relating to “independence” and “objectivity” are of particular importance in an assurance engagement because the intended user needs to have confidence that the professional accountant has no interest that creates an unacceptable risk of bias with respect to the subject matter. Where a professional accountant not in public practice performs an assurance engagement but is not independent, this fact is disclosed in the assurance report, and the report is restricted as to both purpose and users.
 16. Professional accountants may be requested to perform assurance engagements on a wide range of subject matters. Some subject matters may require specialist skills and knowledge beyond those practitioners ordinarily possess. In such cases the practitioner ensures that those persons carrying out the engagement as a team possess the requisite skills and knowledge.

RESPONSIBLE PARTY

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

INTENDED USER

18. The intended user is the person or class of persons for whom the professional accountant prepares the report. The responsible party can be one of the, but not the only, intended user.
19. The intended user may be established by agreement between the professional accountant and the responsible party or those engaging the professional accountant. In some circumstances the intended user is established by law. Often the intended user is the addressee of the professional accountant’s report but in some cases there are intended users other than the addressee, for example in some situations the responsible party is the addressee, but will make the report available to the other intended users.
20. In some cases the intended user (e.g., a bank or a regulator) is directly involved in defining the arrangements for an assurance engagement. In these cases it is particularly important for the professional accountant to ensure that the elements of the engagement desired by the intended user are appropriate to an assurance engagement, for example that the criteria are suitable.
21. When the engagement is designed to meet the needs of a particular user or group of users, for example if the criteria are appropriate only to the needs of those users who participated in their development or who can be presumed to have an adequate understanding of the criteria, the professional accountant considers restricting the report to those specific intended users, and indicating in a restriction in the report that others not identified as users may not rely on it.

SUBJECT MATTER

22. The subject matter of an assurance engagement can take many forms⁴, such as:

⁴ In an assertion-based engagement, the professional accountant’s conclusion may relate to an assertion that is the responsible party’s conclusion about the subject matter based on the criteria, rather than to the subject matter directly (see paragraph 44).

- Information or data about, for example, historical or prospective performance or condition, and physical characteristics (e.g., financial statements, statistical information, non-financial performance indicators, capacity of a facility).
 - Systems and processes (e.g., internal controls).
 - Behavior (e.g., corporate governance, compliance with regulation, human resource practices).
23. The subject matter may relate to a point in time or cover a period of time.
24. The subject matter of an assurance engagement is to be identifiable, capable of consistent evaluation or measurement against suitable criteria and in a form that can be subjected to procedures for gathering evidence to support that evaluation or measurement.
25. The characteristics of some subject matters make them more capable of:
- (a) precise evaluation or measurement against the criteria; or
 - (b) a higher degree of support by more persuasive or conclusive evidence (see paragraph 40 (a)).

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

CRITERIA

26. Criteria are the benchmarks used to evaluate or measure the subject matter of an assurance engagement. For example, in the preparation of financial statements the criteria may be International Financial Reporting Standards or International Public Sector Accounting Standards, when reporting on internal control the criteria may be an established internal control framework or individual control objectives specifically designed for the engagement, and when reporting on compliance, the criteria may be the applicable law, regulation or contract. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding.
27. Identification of the criteria is important in the reporting of an assurance conclusion because it informs the intended user of the basis against which the subject matter has been evaluated or measured in forming that conclusion. Similarly, the criteria need to be available to the intended user. Criteria can be available to the user in one or more of the following ways:
- (a) Available publicly.
 - (b) Available to all intended users through inclusion in a clear manner in the presentation of the subject matter.
 - (c) Available to all intended users through inclusion in a clear manner in the practitioner's report.
 - (d) Generally understood by intended users (e.g., the criterion for measuring time in hours and minutes is generally understood).
 - (e) Available only to particular parties, for example the terms of a contract, or criteria issued by an industry association that are available only to those in the industry.

When the criteria are available only to specified parties, use of the report is restricted to those parties.

28. Criteria need to be suitable to enable reasonably consistent evaluation or measurement of the subject matter within the context of professional judgment. Suitable criteria are context-sensitive, that is, relevant to the engagement circumstances. For example, the same criteria will not always be selected for the same subject matter, for example, for the subject matter: customer satisfaction, one responsible party may select as a criterion that all customer complaints are resolved to the satisfaction of the customer, while another may select a different criterion, such as the number of repeat purchases in the three months following the initial purchase.
29. The decision as to whether the criteria are suitable involves considering whether the subject matter is capable of reasonably consistent evaluation or measurement against such criteria. The mere exercise of judgment to evaluate or measure a subject matter against an individual's own expectations built up through experience, would not constitute suitable criteria. The characteristics for assessing whether criteria are suitable are as follows:
- (a) Relevance: relevant criteria contribute to conclusions that meet the objectives of the engagement, and assist decision making by intended users.
 - (b) Reliability: reliable criteria result in reasonably consistent evaluation or measurement and, where relevant, presentation of the subject matter and conclusions when used in similar circumstances by similarly qualified professional accountants.
 - (c) Neutrality: neutral criteria are free from bias. Criteria are not neutral if they cause the professional accountant's conclusion to mislead intended users.
 - (d) Understandability: understandable criteria are clear and comprehensive and are not subject to significantly different interpretation.
 - (e) Completeness: complete criteria exist when all the criteria that could affect the conclusions in the context of the engagement objectives are identified or developed, and used.
30. In assessing the suitability of criteria to a particular engagement, the practitioner considers whether the criteria reflect the above characteristics. The relative importance of each characteristic to a particular engagement is a matter of judgment.
31. Professional accountants do not accept an assurance engagement when they are aware of any reason for believing that the criteria are not suitable. In such cases, it may however be possible to:
- (a) identify a component of the subject matter for which suitable criteria exist, and perform an assurance engagement in relation to that component as a subject matter in its own right. In such cases, care may need to be taken to prevent the assurance report in relation to the component being mistaken for a report on the original subject matter in its entirety; or
 - (b) perform an agreed-upon procedures engagement.

SUFFICIENT APPROPRIATE EVIDENCE

32. An assurance engagement involves the professional accountant planning and performing the engagement to obtain sufficient appropriate evidence and applying professional judgment in order to express a conclusion. For both audit-level and review-level engagements and for all subject matters, this involves a systematic engagement process requiring a specialized knowledge and skill base, and techniques for gathering evidence to support the conclusion. The process includes the professional accountant and those who

- engage the professional accountant agreeing to the terms of the engagement. Within that context, the professional accountant considers materiality and assurance risk when planning and performing the engagement.
33. The concepts of sufficiency and appropriateness of evidence are interrelated, and include considering the reliability of evidence. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence, that is its relevance and its reliability. The professional accountant considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting a procedure for which there is no alternative. The professional accountant uses professional judgment in determining the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the practitioner's report.
 34. The reliability of evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. Generalizations about the reliability of various kinds of evidence can be made; however, such generalizations are subject to important exceptions. For example, evidence obtained from an independent external source may not be reliable if the source is not knowledgeable. While recognizing that exceptions may exist, the following generalizations about the reliability of evidence may be useful:
 - Evidence is more reliable when it is obtained from independent sources outside the entity.
 - Evidence that is generated internally is more reliable when the related controls imposed by the entity are effective.
 - Evidence obtained directly by the practitioner (e.g., observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (e.g., inquiry about the application of a control).
 - Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (e.g., a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of what was discussed).
 - Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.
 35. An assurance engagement rarely involves the authentication of documentation, nor is the professional accountant trained as or expected to be an expert in such authentication. However, the professional accountant 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.
 36. Evidence is more reliable when the professional accountant obtains consistent evidence from different sources or of a different nature. In these circumstances, the professional accountant may obtain more assurance than from items of evidence considered individually. For example, corroborating information obtained from a source independent of the entity may increase the assurance the professional accountant obtains from a management representation. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the professional accountant determines what additional procedures are necessary to resolve the inconsistency.

37. In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance on a subject matter covering a period of time than on a subject matter at a point in time. In addition, conclusions provided on processes are ordinarily limited to the period covered by the engagement and do not extend to providing any conclusion about whether the process will continue in the future.

Nature, Timing and Extent of Procedures

38. The exact nature, timing and extent of procedures the professional accountant undertakes (work effort) will vary from one engagement to the next. In theory, it may be possible to have infinite variations in work effort. In practice, however, it is not ordinarily possible to communicate fine gradations in the nature, timing and extent of procedures in a clear and unambiguous manner. Therefore this Framework establishes that in any assurance engagement, the professional accountant report in the form appropriate to one of only two distinct levels of work effort: an audit-level engagement and a review-level engagement⁵.
39. In an audit-level engagement, the professional accountant reduces assurance risk to a low level, whereas in a review-level engagement, assurance risk is reduced to a moderate level. Sufficient appropriate evidence to reduce assurance risk to a moderate level can ordinarily be obtained by the application of inquiry and analytical procedures based on a sound understanding of the entity, the subject matter and the objectives of the engagement. While a review-level engagement involves the application of assurance skills and techniques and the gathering of evidence, it does not ordinarily involve obtaining corroborating evidence through an assessment of internal control systems, tests of records and tests of responses to inquiries, using techniques such as inspection, observation, confirmation and re-computation, which are procedures ordinarily performed during an audit-level engagement. However, if in a review-level engagement a matter comes to the attention of the professional accountant that may indicate the subject matter does not conform in all material respects with the criteria, the professional accountant pursues the matter and may need to obtain corroborating evidence.

Quantity and Quality of Evidence Available

40. Ordinarily, the evidence available to support the evaluation or measurement of the subject matter against the criteria will be persuasive rather than conclusive. The quantity or quality of evidence available will be affected by:
- (a) the characteristics of the subject matter, for example when the subject matter is future oriented, less objective evidence might be expected to exist than when the subject matter is historical (see paragraph 25); and
 - (b) the particular circumstances of the engagement (regardless of the subject matter) when evidence that could reasonably be expected to exist is not available to the professional accountant for reasons such as the entity's document retention policy or a restriction imposed by the entity.
41. It is not appropriate to provide an unqualified assurance conclusion, in relation to either an audit-level engagement or a review-level engagement, when:
- (a) circumstances prevent the professional accountant from accessing evidence that the professional accountant determines is required to reduce assurance risk to the appropriate level; or

⁵ Where the subject matter is made up of a number of components, separate conclusions may be provided on each component. While each conclusion is to relate to either an audit-level or a review-level of work effort, not all the conclusions need relate to the same level.

- (b) the entity imposes a restriction that prevents the professional accountant from accessing evidence that may be required to reduce assurance risk to the appropriate level. In such cases the professional accountant considers the possibility of withdrawing from the engagement.
42. Limitations on the quantity or quality of evidence available because of the circumstances of the engagement will, in some cases, prevent the professional accountant from being able to express an unqualified audit-level conclusion. If the engagement has not yet been accepted as an audit-level engagement, the professional accountant may be able to accept the engagement as a review-level engagement and express an unqualified review-level conclusion. Before accepting such an engagement, the professional accountant considers whether it is possible and appropriate to provide a review-level conclusion. If the engagement has been accepted as an audit-level engagement, it is not appropriate to change it to a review-level engagement to avoid a qualified audit-level report.

ASSURANCE REPORT

43. The professional accountant provides a written report containing a conclusion that conveys the assurance obtained as to whether the subject matter conforms in all material respects with the criteria.
44. In some engagements, known as assertion-based engagements, the responsible party makes an explicit assertion that is available to the intended user. The assertion is the responsible party's conclusion about the subject matter based on the criteria. In an assertion-based engagement, the professional accountant's conclusion can relate to either:
- (a) the assertion (e.g., the assertion is presented fairly); or
 - (b) the subject matter directly (e.g., the subject matter is presented fairly in accordance with the criteria).

When such an assertion is not available to the intended user (known as a direct reporting engagement) the professional accountant's conclusion relates to the subject matter directly.

45. In an audit-level engagement, the conclusion is expressed in the positive form, for example "in our opinion *subject matter* conforms in all material respects with *criteria*." This form of expression conveys what is known as "reasonable assurance", which indicates that, given the level of the professional accountant's procedures and the characteristics of the subject matter noted in the professional accountant's report, the professional accountant has obtained sufficient appropriate evidence to reduce assurance risk to a low level. The level of the professional accountant's procedures and the characteristics of the subject matter affect the assurance the professional accountant obtains because they affect the quantity and quality of evidence upon which the professional accountant's conclusion is based.
46. "Reasonable assurance" as obtained in an audit-level engagement is ordinarily less than absolute assurance because reducing assurance risk to zero is ordinarily not attainable as a result of such factors as the use of selective testing, the inherent limitations of control systems, the fact that much of the evidence available to the professional accountant is persuasive rather than conclusive, and the use of judgment in gathering evidence and drawing conclusions based on that evidence.
47. In a review-level engagement, the conclusion is expressed in the negative form, for example "nothing has come to our attention that causes us to believe that *subject matter* does not conform in all material respects with *criteria*." This form of expression conveys what is known as "limited assurance", which indicates that, given the level of the professional accountant's procedures and the characteristics of the subject matter noted in

the professional accountant's report, the professional accountant has obtained sufficient appropriate evidence to reduce assurance risk to a moderate level. The level of the professional accountant's procedures and the characteristics of the subject matter affect the assurance the professional accountant obtains because they affect the quantity and quality of evidence upon which the professional accountant's conclusion is based.

ISAE 2000
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This International Standards on Assurance Engagements (ISAE) contains basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material for assurance engagements other than audits and reviews of historic financial information performed by professional accountants in public practice where no specific ISAE(s) exist. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

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

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

This ISAE need only be applied to material matters.

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

Introduction

48. The purpose of this ISAE is to establish basic principles and essential procedures for, and provide guidance to, professional accountants in public practice for the performance of assurance engagements on subject matters other than historic financial information. This ISAE is to be read in the context of the “Framework for Assurance Engagements”.
49. This ISAE applies to all assurance engagements performed by professional accountants in public practice where no specific ISAE(s) exists.
50. The term “practitioner” is used hereafter to mean a professional accountant in public practice.
51. “Assurance engagement” means an engagement in which a professional accountant expresses a conclusion designed to enhance the degree of confidence an intended user can have about the evaluation or measurement of a subject matter, that is the responsibility of a third party, against relevant criteria.
52. This ISAE uses the terms “audit-level engagement” and “review-level engagement” to distinguish between the two forms of assurance engagements. These terms are used for ease of reference only, and it is recognized that various other names are used in practice for each, including “audit” and “examination”, and “review” and “limited review.”
53. “Assurance risk” is the risk that the professional accountant will fail to detect, and report appropriately, when the subject matter does not conform, in all material respects, with the identified criteria⁶.

⁶ In addition to assurance risk, the professional accountant is exposed to a risk through loss or injury from litigation, adverse publicity, or other events arising in connection with a subject matter reported on. This risk is not part of assurance risk.

Ethical Requirements

54. **The practitioner should comply with the requirements of the IFAC *Code of Ethics for Professional Accountants* (the Code).**
55. A practitioner who performs an assurance engagement is to be independent of the assurance client⁷. Section 8 of The Code provides a framework of principles that members of assurance teams, firms and network firms use to identify threats to independence, evaluate the significance of those threats, and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level, such that independence of mind and independence in appearance are not compromised. It also includes some examples of how that framework is to be applied to specific circumstances and relationships.

Engagement Acceptance and Continuation

56. **The practitioner should accept an assurance engagement only if the subject matter is the responsibility of another party.** Acknowledgement by the responsible party provides evidence that the appropriate relationship exists and also establishes a basis for a common understanding of the responsibility of each party. Obtaining this acknowledgement in writing provides the most appropriate form of documentation of the responsible party's acknowledgement, but, recognizing the broad range of assurance engagements, this is not always practical. There may be other sources of evidence that indicate responsibility for the subject matter; for example, it may be clearly established in legislation, or contract. When the practitioner has other evidence that the responsibility exists, acknowledgement of responsibility for the subject matter may be obtained at other points in the engagement, such as through discussions on the criteria or the nature of the engagement.
57. **The practitioner should accept the engagement only if the subject matter is identifiable and in a form that can be subjected to evidence gathering procedures, and the practitioner is not aware of any reason for believing that the criteria are not suitable or that sufficient appropriate evidence to express a conclusion cannot be obtained.** The practitioner may accept the engagement only if, as a result of initial discussions with one or more of the parties associated with the engagement, and on the basis of a preliminary knowledge of the engagement circumstances, nothing comes to the attention of the practitioner to indicate that the requirements of this ISAE will not be satisfied. The practitioner also needs to have a reasonable basis for believing that sufficient appropriate evidence can be obtained and that the conclusion intended to be expressed by the practitioner can be meaningful to the intended user, which includes a consideration of the effect of the characteristics of the subject matter on the quantity and quality of evidence available, particularly when a review-level engagement is being considered given the expectation of limited procedures.
58. **The practitioner should be satisfied that those performing the engagement possess collectively the necessary professional competencies to perform the engagement.** Some subject matters may require specialist skills and knowledge beyond those practitioners ordinarily possess. In such cases the practitioner ensures that those persons carrying out the engagement as a team possess the requisite skills and knowledge.

⁷ If this ISAE is being applied to the extent possible by a professional accountant not in public practice, and the professional accountant or other members of the assurance team and, when applicable, the firm, network firm or equivalent (e.g., the professional accountant's employer), are not independent of the assurance client (as defined in the Code) the nature of the relationship(s) with the assurance client is prominently disclosed in the assurance report, which does not include the word "independent" in its title, and the purpose and users of the report are restricted.

59. **A professional accountant who, before the completion of the engagement, is requested to change the engagement from an audit-level engagement to a different engagement, or from a review-level engagement to a non-assurance engagement, considers the appropriateness of doing so, and cannot agree to a change where there is no reasonable justification for the change.** A change in circumstances that affects the intended user's requirements, or a misunderstanding concerning the nature of the engagement is ordinarily considered a reasonable basis for requesting a change in the engagement.

Agreeing the Terms of the Engagement

60. **The practitioner should agree on the terms of the engagement with the party who engages the practitioner.** As a means of reducing uncertainty, it is recommended that the agreed terms be recorded in an engagement letter or other suitable form of contract. In some cases the engagement objective, subject matter and time period are prescribed by a party or parties other than the one that appoints the practitioner, for example, by legislation. Where the assurance engagement mandate is legislated, the existence of the legislative mandate meets this requirement.

Quality Control

61. **The practitioner should implement those quality control procedures that are, in the context of the policies and procedures of the firm, appropriate to the individual engagement.** Quality control policies and procedures apply at two levels, and relate to the overall policies and procedures for all assurance engagements and also to the direction, supervision and review of work delegated to personnel involved in a specific assurance engagement.

Planning and Performing the Engagement

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

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

63. **The practitioner should plan and perform an engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter not to conform materially with the identified criteria.** An attitude of professional skepticism means the practitioner makes a critical assessment, with a questioning mind, of the validity of 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 professional skepticism is necessary

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

64. **The practitioner should have or obtain knowledge of the engagement circumstances sufficient to identify and understand the events, transactions and practices that may have a significant effect on the subject matter and engagement.** Such knowledge is used by the practitioner in evaluating the suitability of the criteria, in assessing assurance risk and in determining the nature, timing and extent of engagement procedures.

DETERMINING THE SUITABILITY OF CRITERIA

65. **The practitioner should determine whether the criteria are suitable to evaluate or measure the subject matter.** Suitable criteria have the characteristics listed in paragraph 29 of the “Framework for Assurance Engagements.” Criteria can be either *established* or *specifically developed*. Established criteria are those embodied in laws or regulations, or issued by recognized bodies of experts that follow due process. Specifically developed criteria are those identified for the purpose of the engagement and which are consistent with the engagement objective. The source of the criteria will affect the work the practitioner will need to carry out in order to assess suitability for a particular engagement. In addition, those engaging the practitioner and the practitioner agree on the criteria.
66. The practitioner ordinarily concludes that established criteria are suitable when they are consistent with the engagement objective. When established criteria exist but an identifiable, limited group of users has agreed to other criteria for a specified purpose, the practitioner’s report indicates that it is only for the use of the identified users and for the purpose they have specified. For example, International Financial Reporting Standards are established criteria for the preparation and presentation of financial statements, but a particular user may specify an alternative basis of accounting that meets the user’s specific information needs.
67. In emerging types of assurance engagements it is less likely that there will be established criteria, and therefore criteria may be specifically developed. The practitioner is satisfied that specifically developed criteria do not result in a report that is misleading to intended users. The practitioner attempts to obtain from the intended users or those engaging the practitioner, acknowledgement that specifically developed criteria are sufficient for the intended users’ purposes. When such acknowledgement cannot be obtained, the practitioner considers the effect of this on the work required to be satisfied as to the suitability of the criteria and on the information provided about the criteria in the practitioner’s report.

MATERIALITY AND ASSURANCE RISK

68. **The practitioner should consider materiality and assurance risk when planning and performing an assurance engagement.**
69. When considering materiality, the practitioner needs to understand and assess what factors might influence the decisions of the intended users. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the subject matter and the expressed interests of intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the practitioner’s judgment.
70. **The practitioner should reduce assurance risk to:**
 (a) **a low level in the case of an audit-level engagement, or**

(b) a moderate level in the case of a review-level engagement.

71. In general, assurance risk can be represented by the following components, although not all of these components will be significant for all assurance engagements:
- (a) Inherent risk: the risks associated with the nature of the subject matter.
 - (b) Control risk: the risk that the responsible party's controls over the subject matter will not prevent, or detect and correct on a timely basis, matters that could adversely affect the subject matter's conformity with the criteria.
 - (c) Detection risk: the risk that the practitioner will not detect material matters that could adversely affect the evaluation or measurement of the subject matter's conformity with the criteria.
72. The extent to which the practitioner considers each of these components will be affected by the engagement circumstances, in particular the nature of the subject matter and whether an audit-level or a review-level engagement is being performed.

Obtaining Evidence

73. **The practitioner should obtain sufficient appropriate evidence on which to base the conclusion.**
74. Sufficient appropriate evidence to reduce assurance risk to a moderate level can ordinarily be obtained by the application of inquiry and analytical procedures based on a sound understanding of the entity, the subject matter and the objectives of the engagement. While a review-level engagement involves the application of assurance skills and techniques and the gathering of evidence, it does not ordinarily involve obtaining corroborating evidence through an assessment of internal control systems, tests of records and tests of responses to inquiries using techniques such as inspection, observation, confirmation and re-computation, which are procedures ordinarily performed during an audit-level engagement. However, if in a review-level engagement a matter comes to the attention of the professional accountant that may indicate the subject matter does not conform in all material respects with the criteria, the professional accountant pursues the matter and may need to obtain corroborating evidence.
75. **The practitioner should obtain written representations from the responsible party on matters material to the subject matter when other sufficient appropriate evidence cannot reasonably be expected to exist.** The possibility of misunderstandings between the practitioner and the responsible party is reduced when oral representations are confirmed by the responsible party in writing. In a direct reporting engagement, the auditor also requests from the responsible party a written assertion that evaluates or measures the subject matter against the criteria. If the responsible party will not provide a written assertion, this may result in:
- a reservation or denial of conclusion on the basis of a limitation on the scope of the engagement; and
 - the practitioner including in the report a restriction on its use.

Documentation

76. **The practitioner should document matters that are significant in providing evidence to support the practitioner's report, and in providing evidence that the engagement was performed in accordance with applicable Standards.**

77. Documentation includes a record of the practitioner's reasoning on all significant matters that require the exercise of judgment, together with the practitioner's conclusion thereon. In areas involving difficult questions of principle or judgment, the documentation will include the relevant facts that were known by the practitioner at the time the conclusion was reached.
78. The extent of documentation is a matter of professional judgment since it is neither necessary nor practical to document every matter the practitioner considers. In assessing the extent of documentation to be prepared and retained, it may be useful for the practitioner to consider what is necessary to provide another professional accountant who has no previous experience with the engagement, with an understanding of the work performed and the basis of the principal decisions taken, but not the detailed aspects of the engagement. However, even then, that other professional accountant may only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the practitioner who prepared the documentation.

Considering Subsequent Events

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

Using the Work of an Expert

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

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

Preparing the Practitioner's Report

87. **The practitioner's report should be in writing and should contain a clear expression of the practitioner's conclusion about the subject matter based on the identified criteria and the evidence obtained in the course of the engagement.**
88. Oral and other forms of expressing conclusions are open to misunderstanding 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 definitive written 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.
89. This ISAE does not require a standardized format for reporting on all assurance engagements, but rather identifies the minimum information required to be included in the report. Reports are tailored to the specific engagement circumstances. The practitioner chooses a narrative (or "long form") style of reporting or a standardized (or "short form") style as appropriate to facilitate effective communication to the intended user. The practitioner may use headings, paragraph numbers, typographical devices (e.g., the bolding of text) and other mechanisms to enhance the clarity and readability of the practitioner's report.

REPORT CONTENT

90. **The practitioner's report should include:**

- (a) **A title that clearly indicates the report is an independent assurance report⁸:** an appropriate title helps to identify the nature of the report, and to distinguish the practitioner's report from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practitioner.
- (b) **An addressee:** an addressee identifies the party or parties to whom the report is directed.
- (c) **A description of the subject matter:** the description includes:
 - (i) an identification and explanation, when relevant, of those characteristics of the subject matter of which the intended user should be aware; and
 - (ii) (when appropriate) the point in time or period of time to which the subject matter relates.

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

- (d) **When the report is for a restricted use or a restricted purpose, identification of the parties to whom the report is restricted or the purpose for which it is restricted:** while the practitioner cannot control the distribution of the report, this provides a caution to readers of the party or parties to whom the report is restricted or for what purpose it is restricted. **When the criteria used to evaluate or measure the subject matter are available only to specified parties, the report should be restricted to use by those parties.**
- (e) **A statement to identify the responsible party and describe the practitioner's responsibilities:** this informs the intended user that the responsible party is responsible for the subject matter and that the practitioner's role is to express a conclusion about the subject matter.
- (f) **Identification of the fact that the engagement was performed in accordance with this ISAE.**
- (g) **A summary of the work undertaken.** The summary will help the intended user understand the nature of the assurance conveyed by the practitioner's report. The description of the work undertaken in a financial statements audit as required by ISA 700 "The Auditor's Report on Financial Statements" can be used as a guide to the type of summary that may be appropriate, although in non-standard types of assurance engagements it may be appropriate to offer more detail of the work undertaken. In review-level engagement reports, the description of the engagement process includes a statement to the effect that the procedures are comprised primarily of inquiries and analytical procedures, and that therefore less assurance is obtained than would be the case had additional corroborating evidence been sought through other procedures.

⁸ If this ISAE is being applied to the extent possible by a professional accountant not in public practice, and the professional accountant or other members of the assurance team and, when applicable, the firm, network firm or equivalent (e.g. the professional accountant's employer), are not independent of the assurance client (as defined in the Code) the nature of the relationship(s) with the assurance client is prominently disclosed in the assurance report, which does not include the word "independent" in its title, and the purpose and users of the report are restricted.

- (h) **Identification of the criteria:** the report identifies the criteria against which the subject matter was evaluated or measured so the intended user can understand the basis for the practitioner's conclusions. The criteria may either be included in the practitioner's report or simply be referred to if they are set out in an assertion prepared by the responsible party or available from a readily accessible source. Disclosure of the source of the criteria and whether or not the criteria are generally accepted in the context of the engagement objective and the nature of the subject matter (and if they are not generally accepted, a description of why the practitioner thinks they are suitable) is important in understanding the conclusions expressed.
- (i) **The practitioner's conclusion, including any reservations or denial of a conclusion:** Where the engagement has more than one objective, a conclusion on each objective is expressed.

The conclusion should include an explicit reference to the other elements of the report: this informs the intended user of the context in which the practitioner's conclusion is to be read. For example, "this conclusion has been formed on the basis of ..., and is subject to the limitations outlined elsewhere in this report."

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

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

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

- (j) **The report date:** the report is dated as of the completion date of the engagement. This informs the intended user that the practitioner has considered the effect on the subject matter and on the report of events of which the practitioner became aware and that occurred up to that date.
 - (k) **The name of the firm or the practitioner, and the place of issue of the report:** this informs the intended user of the individual or firm assuming responsibility for the engagement.
91. The practitioner may expand the report to include other information and explanations not intended as a reservation. Examples include findings relating to particular aspects of the engagement and recommendations of the practitioner. When considering whether to include any such information, the practitioner assesses the significance of that information in the context of the objective of the engagement. Additional information is worded in such a manner so as not to affect the conclusion of the practitioner.
 92. The Appendix contains an illustrative outline of an assurance report. The headings used and other elements of the outline are not intended to be prescriptive in either their form or their content.

RESERVATION OR DENIAL OF CONCLUSION

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

Effective Date

96. This ISAE is effective for assurance engagements where the practitioner's report is dated on or after *[date to be inserted]*. Earlier application is encouraged.

Appendix

Illustrative outline of an assurance report

INDEPENDENT ASSURANCE REPORT**To addressee****Scope**

Describe the objective of the engagement and identify the subject matter

Intended users and purpose

If the report is restricted, identify the intended users and the intended purpose

Relative responsibilities

Distinguish the relative responsibilities of the responsible party and the professional accountant (and the user if appropriate)

Standards and procedures

Cite ISAE 2000 or specific ISAE(s) and summarize the work undertaken

Criteria

Identify and discuss the criteria

Characteristics of the subject matter

Describe particular characteristics of the subject matter of which the intended user should be aware

Conclusion

Provide a conclusion, linking it back to the other elements of the report, for example “The conclusion that follows has been formed on the basis, and is subject to the limitations, outlined above,” or “Based on our procedures and given the limitations addressed above, we ...”

Firm: Date: Address:

Public Sector Perspective

[*** No changes suggested to this as yet. PSC are to be consulted ***]

1. *The Public Sector Committee (PSC) considers and makes use of the pronouncements issued by the International Auditing Practices Committee for their application in the public sector. “Public sector” refers to national governments, regional (state, provincial, territorial) governments, local (city, town) governments and related governmental entities (agencies, boards, commissions and enterprises).*
2. *Irrespective of whether an assurance engagement is being conducted in the private or public sectors, the basic principles remain the same. However, the application of the principles may need to be clarified or supplemented to accommodate the public sector circumstances and perspective of individual jurisdictions. The nature of potential matters for clarification and supplementation is identified in the “Public Sector Perspective (PSP)” included at the end of each International Standard on Assurance Engagements (International Standard) when required.*
3. *If no PSP is included at the end of an International Standard, then the International Standard is applicable in all material respects to an assurance engagement in the public sector.*

Assurance Engagements in the Public Sector – Specific considerations

4. *Professional accountants appointed to perform an assurance engagement in the public sector need to take account of the specific requirements of any relevant regulations, ordinances or ministerial directives that affect the mandate, or any special requirements. The mandate and requirements may affect certain aspects of the assurance engagement, such as, the extent of the professional accountant’s discretion in establishing materiality, and in the form of the report. In particular, legislation and regulations often specify requirements relating to the subject matter and the reporting of certain assurance engagements in the public sector.*
5. *While the standards on high level assurance engagements are limited to professional accountants in public practice (practitioners), the basic principles are also applicable to professional accountants undertaking such engagements in the public sector, such as public sector auditors.*

SUBJECT MATTER

6. *The mandate and legal requirements affecting professional accountants often encompass a wide range of objectives and subject matter. For example, professional accountants may be required to report on the reliability and appropriateness of performance indicators included in a public sector entity’s annual report, relating to such matters as productivity levels, quality and volume of service and the extent to which particular service delivery objectives have been achieved. In addition, professional accountants may be required to report on:*
 - *compliance with legislative or regulatory requirements and related authorities;*
 - *adequacy of accounting and control systems; and*
 - *economy, efficiency and effectiveness of programs, projects and activities.*

7. *In these engagements, the professional accountant may attest to a report or assertion regarding the subject matter, or may directly report their evaluation of the subject matter. Professional accountants may be required to report not only on the reliability of a performance report of a government program, but also on the relevance of performance measures to the objectives of that program.*

REPORTING

8. *Professional accountants often undertake direct reporting assignment, since the responsible party may not have prepared a written assertion. While the reports generally should contain the elements described in paragraph 71, such reports are often long-form, describing in more detail the objective of the engagement, the criteria, the findings and conclusions. Professional accountants may also include recommendations in their reports.*
9. *Some mandates may require professional accountants to report instances of non-compliance, or instances where management has not handled matters with due regard to economy, efficiency and effectiveness. It should nevertheless be recognized that the framework contemplates that the report will contain a clear expression of the professional accountant's conclusion about the subject matter.*

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