

**Mark-up**

**~~PROPOSED~~ INTERNATIONAL FRAMEWORK FOR ASSURANCE ENGAGEMENTS  
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**Introduction**

1. ~~The purpose of t~~This Framework ~~is to~~ defines and describes the elements and objectives of an assurance engagement, and ~~to identify~~ies those engagements to which International Standards on Auditing (ISAs) and International Standards on Assurance Engagements (ISAEs) apply. It provides a frame of reference for:
  - (a) Professional accountants in public practice (~~hereinafter referred to as~~ "practitioners") when performing assurance engagements. Professional accountants in the public sector refer to the Public Sector Perspective at the end of the Framework. ~~Other p~~Professional accountants who are neither not in public practice nor in the public sector are encouraged to ~~refer to~~ consider the Framework when performing assurance engagements;<sup>1</sup>
  - (b) Others involved with assurance engagements, including the intended users of an assurance report and those responsible for the subject matter of an assurance engagement; and
  - (c) ~~The development by t~~The International Auditing and Assurance Standards Board (IAASB) in its development of ISAs for audits and reviews of historical financial

<sup>1</sup> ~~When this Framework is being applied by~~ If a professional accountant not in public practice, e.g., an internal auditor applies this Framework; and:

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

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

information, and of ISAEs for assurance engagements on the evaluation or measurement of other subject matters.

2. ~~While this Framework provides a frame of reference for assurance engagements, it does not itself establish standards or provide procedural requirements for the performance of such assurance engagements. ISAs and ISAEs contain basic principles, essential procedures and related guidance, that are consistent with the concepts in this Framework, for the performance of assurance engagements. The relationship between the Framework and the ISAs and ISAEs is illustrated in the diagram included as Appendix 1 "Structure of the IAASB's Technical Pronouncements", which has been included for information.~~

3. The following is an overview of this Framework:

- *Introduction:* This Framework deals with assurance engagements performed by practitioners. It provides a frame of reference for practitioners and others involved with assurance engagements, such as those engaging a practitioner (the "engaging party").
- *Definition and objective of an assurance engagement:* This section defines ~~what is meant by~~ assurance engagements and identifies the objectives of the two types of assurance engagement ~~that are a practitioner is permitted to be performed by a practitioner, which for ease of reference this Framework refers to as calls these two types~~ reasonable assurance engagements and limited assurance engagements.<sup>2</sup>
- *Scope of the Framework:* This section distinguishes assurance engagements from other engagements ~~performed by practitioners~~, such as consulting engagements.
- ~~Acceptance of an assurance engagement~~ *Engagement acceptance:* This section ~~includes certain sets out~~ characteristics ~~of assurance engagements~~ that must be exhibited before a practitioner can accept ~~such an~~ assurance engagement.
- *Elements of an assurance engagement:* This section identifies and discusses five elements ~~that all~~ assurance engagements performed by practitioners exhibit: a three party relationship, a subject matter, suitable criteria, evidence and an assurance report. It explains important distinctions between reasonable assurance engagements and limited assurance engagements, ~~which are~~ (also outlined in ~~the~~ Appendix 2). This section also discusses the significant variation in the subject matters of assurance engagements, the required characteristics ~~that of suitable criteria must have to be considered suitable~~, the role of risk and materiality in assurance engagements, and ~~the form of how conclusions are expressed to be used for conclusions on in~~ each of the two types of assurance engagement.

#### *Ethical Principles and Quality Control Standards*

4. In addition to this Framework and ISAs and ISAEs, practitioners who perform assurance engagements are governed by:

- (a) ~~The~~ IFAC Code of Ethics for Professional Accountants (the "Code"), which establishes fundamental ethical principles for professional accountants; and

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

~~(b) International Standards on Quality Control Standards (“ISQCs”)~~, which establish standards and provide guidance on a firm’s system of quality control.<sup>3</sup>

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

### Definition and Objective of an Assurance Engagement

7. “Assurance engagement” means an engagement in which a practitioner expresses a conclusion ~~that is~~ designed to enhance the intended users<sup>4</sup> degree of confidence about the evaluation or measurement of a subject matter against criteria, when that subject matter is the responsibility of a party other than the intended users<sup>5</sup> or the practitioner.
8. Under this Framework, there are two types of assurance engagement a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. The objective of a reasonable assurance engagement is to obtain “reasonable assurance” as the basis for a positive form of expression in the practitioner’s conclusion by a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement<sup>6</sup> ~~to obtain “reasonable assurance” as the basis for a positive form of expression in the practitioner’s conclusion.~~ The objective of a limited-assurance engagement is to obtain “limited assurance” as the basis for a negative form of expression in the practitioner’s conclusion by a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement; but which is less than for an audit level reasonable assurance engagement, to obtain “limited assurance” as the basis for a negative form of expression in the practitioner’s conclusion.

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

<sup>4</sup> ~~Use of t~~The term “intended users” ~~in this Framework includes applies to~~ cases when there is only one intended user.

<sup>5</sup> The responsible party can be one of the intended users, but not the only one.

<sup>6</sup> Engagement circumstances include the terms of the engagement, including whether ~~an audit level~~it is a reasonable assurance engagement or a limited assurance review level engagement ~~is being undertaken~~, the characteristics of the subject matter, the criteria to be used, the needs of the intended users, relevant characteristics of the responsible party and its environment, and other matters, (e.g., events, transactions, conditions and practices,) that may have a significant effect on the engagement.

## Scope of the Framework

9. Not all engagements performed by practitioners are assurance engagements. Other ~~engagements~~ frequently performed ~~engagements by practitioners~~ that do not meet the above definition ~~of an assurance engagement~~ (and ~~which are~~ therefore are not covered by this Framework) include:
- Engagements covered by International Standards for Related Services, ~~including such as~~ agreed-upon procedures engagements and compilations of financial or other information.~~:-~~
    - ~~Agreed-upon procedures.~~
    - ~~Compilation of financial or other information.~~
  - The preparation of tax returns where no conclusion conveying assurance is expressed.
  - Consulting, ~~(or advisory)~~, engagements,<sup>7</sup> such as management and tax consulting.
10. An assurance engagement may be part of a larger engagement, e.g., when a business acquisition consulting engagement includes a requirement to convey~~ing~~ assurance regarding historical or prospective financial information. In such circumstances, this Framework is relevant only to the assurance portion of the engagement.
11. The following engagements which may meet the definition in paragraph 7 are ~~not included in~~excluded from the scope 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 that are merely incidental to the overall engagement but from which a user may derive some assurance, ~~but in which if~~:
    - ~~(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) Pursuant to~~Under a written understanding with ~~these~~ 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

12. A ~~report issued by a practitioner reporting on in connection with~~ an engagement that is not an assurance engagement within the scope of this Framework, ~~is written so as to~~ clearly

<sup>7</sup> Consulting, ~~or advisory~~, engagements employ a professional accountant's technical skills, education, observations, experiences, and knowledge of the consulting process. The consulting process is an analytical process that typically involves some combination of activities relating to: objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results, and sometimes implementation and follow-up. ~~Where a Report (if issued), it is~~ 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.

distinguishes es that report it from an assurance report. A-So as not to confuse users, a report that is not an assurance report~~could reasonably be mistaken for an assurance report if avoids~~, for example, ~~it~~:

- Implying compliance with this Framework, ISAs or ISAEs.
- Inappropriately using the words “assurance”, “audit” or “review”.

~~Purports to enhance the degree of confidence users can have about the evaluation or measurement of a subject matter.~~

- Including a statement ~~a conclusion~~ that could reasonably be mistaken for a conclusion about ~~a subject matter's conformance with of the evaluation or measurement of a subject matter with~~ criteria.

13. The practitioner and the responsible party may, ~~by agreement with the responsible party, to~~ apply the principles of the Framework ~~in to~~ an engagement when there are no intended users other than the responsible party but where all other requirements of the ISAs or ISAEs are met. In such cases, the practitioner's report includes a statement restricting the use of the report to the responsible party. The practitioner may also apply the principles of the Framework to engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters.

#### **Acceptance of an Assurance Engagement Acceptance**

14. A practitioner ~~does not accept~~s an assurance engagement if only where the practitioner's preliminary knowledge of the engagement circumstances indicates that: either

(a) Relevant ethical requirements, such as independence and professional competence, or the requirements of relevant ISAs or ISAEs will not be satisfied, and. In particular, a practitioner does not accept an assurance engagement unless the practitioner's preliminary knowledge of the engagement circumstances indicates that

(b) The engagement exhibits all of the following characteristics:

- (ai) The subject matter is appropriate identifiable, capable of consistent evaluation or measurement against identified, suitable criteria, and in a form that can be subjected to procedures for gathering evidence to support the practitioner's conclusion;
- (bii) The criteria to be used are suitable and are available to the intended users;
- (eiii) The practitioner has access to sufficient appropriate evidence to support the practitioner's conclusion is available;
- (div) 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
- (ey) 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 51), 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 57).

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

15. When a potential assurance engagement cannot be accepted 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~~ For example:

~~(a)~~ (a) If the original criteria were not suitable, an assurance engagement may still be able ~~to be~~ performed if:

~~(ai)~~ (ai) The engaging party can identify an aspect ~~component~~ of the original subject matter for which those criteria are suitable, and ~~in relation to which~~ the practitioner could perform an assurance engagement with respect to that aspect 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 makes it clear that it does not relate to from being mistaken for a report on~~ the original subject matter in its entirety; or

~~(bij)~~ (bij) Alternative criteria ~~that are~~ suitable for the original subject matter can be selected or developed.

~~(b)~~ (b) ~~The engaging party may request a~~ An engagement that is not an assurance engagement, such as a consulting or an agreed-upon procedures engagement, in which no conclusion is expressed, may be requested.

16. Having accepted an assurance engagement, a practitioner ~~does~~ may not change that engagement to a non-assurance engagement, or from a reasonable-assurance engagement to a limited-assurance engagement ~~without, unless there is a~~ reasonable justification. ~~for the change~~ A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement, ordinarily will 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.

### Elements of an Assurance Engagement

17. An assurance engagement performed by a practitioner exhibits all of the following elements, ~~each of which is discussed below:~~

(a) A three party relationship involving ~~:~~

~~(i)~~ (i) ~~A~~ a practitioner ~~;~~

~~(ii)~~ (ii) ~~A~~ a responsible party ~~;~~ and

~~(iii)~~ (iii) ~~The~~ intended users;

(b) A subject matter;

(c) Suitable criteria;

(d) Evidence; and

(e) An assurance report.

### Three Party Relationship

18. Assurance engagements involve three separate parties: a practitioner, a responsible party and ~~the~~ intended users. The practitioner gathers evidence to obtain assurance and provide a conclusion to the intended users about whether the evaluation or measurement of a subject



matter that is the responsibility of a party other than the intended users<sup>8</sup> or the practitioner, conforms, in all material respects, with identified criteria.

19. The responsible party and the intended users may be from different entities or the same entity. As an example of the second case, in-will often be from separate entities but need not be. A responsible party and the intended users may both be within the same entity. For example, where there is a two-tier board structure, the supervisory board may seek assurance about information provided by the management board of that entity. The relationship between the responsible party and the intended users needs to be viewed within the context of a specific engagement and may differ from more traditionally defined lines of responsibility. For example, an entity's senior management (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

20. The term "practitioner" as used in this Framework ~~means a professional accountant in public practice. It~~ is broader than the term "auditor" as used in ISAs, which relates only to practitioners performing audit or review engagements with respect to historical financial information.
21. Practitioners may be requested to perform assurance engagements on a wide range of subject matters. Some subject matters may require speciali~~zed~~<sup>zed</sup> skills and knowledge beyond those ~~that individual practitioners~~ ordinarily possessed by an individual practitioner. 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 a level of involvement in the engagement and an understanding of the aspects of the work for which any expert is used, sufficient to enable the practitioner to accept responsibility for expressing a conclusion on the subject matter.~~

#### Responsible Party

22. The responsible party is the person or persons, ~~either as individuals or as representatives of an entity,~~ responsible for the subject matter. The responsible party may or may not be the party who engages the practitioner (the engaging party).
23. 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. The practitioner may not be able to obtain such a representation when the engaging party is different from the responsible party.

#### Intended Users

24. The intended users are the person, persons or class of persons ~~(or the individual)~~ for whom the practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one.
25. All addressees of the assurance report are intended users, but there may be other intended users. 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 have access to it. In such cases, particularly where possible readers are likely to have a broad range of interests in the

<sup>8</sup> The responsible party can be one of the intended users, but not the only one.

~~evaluation or measurement of the subject matter, the practitioner may limit consideration of users to major stakeholders with significant and common interests. The intended users may be identified in different ways, e.g., an-by agreement between the practitioner and the responsible party or those-engaging party, or by law. the practitioner. In some circumstances the intended users are identified by law. Often the intended users are the addressee of the assurance report, but in some cases there are intended users other than the addressee.~~

26. Some intended users (e.g., bankers and regulators) may impose a requirement on, or may request the responsible party to arrange for, an assurance engagement to be performed on a particular subject matter. ~~However, o~~Other intended users ~~however,~~ may have no direct involvement in defining the terms of the engagement. When ~~the engagements are is~~ designed ~~to meet the needs of for~~ specific~~de~~ intended users or ~~for~~ a specific purpose, the practitioner considers ~~including a restriction stating~~ in the assurance report that limits its use ~~is restricted to those specific intended users or theat specific purpose.~~

### *Subject Matter*

27. The subject matter of an assurance engagement can take many forms, such as:

- ~~Information or data about, e.g., historical or prospective f~~financial or other types of performance or conditions, or physical characteristics (e.g., historical or prospective financial statements performance or conditions, statistical information, non-financial performance indicators or conditions, capacity of a facility).
- Systems and processes (e.g., internal controls, IT systems).
- Behavior (e.g., corporate governance, compliance with regulation, human resource practices).

28. ~~Subject matters have different The characteristics, of a subject matter~~ include the degree to which ~~it is they are:~~ qualitative versus quantitative, objective versus subjective, and historical versus prospective, and whether ~~it they~~ relates to a point in time or covers a period ~~of time~~. Such characteristics affect the:

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

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

29. ~~To be An appropriate for an assurance engagement, a subject matter needs to exhibit all the following characteristics; it is:~~

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

~~Those characteristics that are particularly relevant to the intended users are described in the assurance report.~~



*Suitable Criteria*

30. Criteria are the benchmarks used to evaluate or measure the subject matter of an assurance engagement including, where relevant, benchmarks for presentation and disclosure ~~of the subject matter. For example: Criteria can be formal, e.g.,~~ 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. ~~Some criteria are~~ Examples of less formal ~~criteria are, such as~~ 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). Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding.~~
31. ~~Suitable c~~Criteria ~~need to be suitable to enable~~ are required for reasonably consistent evaluation or measurement of ~~the a~~ 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; ~~therefore, the same criteria will not always be selected~~ Even for the same subject matter there can be different criteria. For example, ~~for the subject matter of customer satisfaction,~~ one responsible party ~~may~~ might select ~~as a criterion~~ the number of customer complaints resolved to the acknowledged satisfaction of the customer for the subject matter of customer satisfaction; ~~while~~ another responsible party ~~may~~ might select ~~a different criterion, such as~~ the number of repeat purchases in the three months following the initial purchase.
32. ~~The decision as to whether the criteria are suitable involves considering whether the subject matter is capable of reasonably consistent evaluation or measurement against those criteria. The evaluation or measurement of a subject matter on the basis of the practitioner's own expectations, judgments and individual experience would not constitute suitable criteria. The characteristics for assessing whether criteria are suitable are as follows~~ Suitable criteria exhibit the following characteristics:
- (a) Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users;
  - (b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure ~~of the subject matter;~~
  - (c) Reliability: reliable criteria ~~result in~~ allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure ~~of the subject matter,~~ when used in similar circumstances by similarly qualified practitioners;
  - (d) Neutrality: neutral criteria are free from bias; and
  - (e) Understandability: understandable criteria are clear, ~~and~~ comprehensive, and ~~are~~ not subject to significantly different interpretations.

The evaluation or measurement of a subject matter on the basis of the practitioner's own expectations, judgments and individual experience would not constitute suitable criteria.

33. ~~In assessing the suitability of criteria to a particular engagement, the~~ The practitioner assesses the suitability of criteria for a particular engagement by considering whether they criteria reflect the above characteristics. The relative importance of each characteristic to a particular engagement is a matter of judgment. Criteria can either be ~~either~~ established or specifically developed. Established criteria are those embodied in laws or regulations, or issued by recognized bodies of experts that follow a transparent due process. Specifically developed criteria are those designed for the purpose of the engagement. Whether criteria are established or specifically developed affects the work that the practitioner carries out to assess their suitability for a particular engagement.
34. ~~Identification of the Criteria need to be available to in the reporting of an assurance conclusion is important because it informs the intended users of the basis against which the to allow them to understand how the~~ subject matter has been evaluated or measured. in forming that conclusion. Similarly, the criteria need to be available to the intended users. Criteria can be made available to the intended users in one or more of the following ways:
- (a) ~~Available P~~publicly;
  - (b) ~~Available to the intended users T~~through inclusion in a clear manner in the presentation of information about the evaluation or measurement of the subject matter;
  - (c) ~~Available to the intended users T~~through inclusion in a clear manner in the assurance report; or
  - (d) ~~By g~~Generally understood, by the intended users (e.g., the criterion for measuring time in hours and minutes. is generally understood); or
  - (e) Criteria may also be Aavailable only to specific intended users, (e.g., the terms of a contract, or criteria issued by an industry association that are available only to those in the industry).
- When ~~the~~ identified criteria are available only to specific intended users, or are relevant only to a specific purpose, use of the assurance report is restricted to those specific intended users or for that purpose.<sup>9</sup>

### Evidence

35. ~~An assurance engagement involves the practitioner The practitioner planning and performing the an assurance engagement with an attitude of professional skepticism to obtain sufficient appropriate evidence about whether the evaluation or measurement of the subject matter's conformity, in all material respects, with the identified criteria, and applying professional judgment in evaluating evidence in order to express a conclusion. For both reasonable assurance and limited assurance engagements, and for all subject matters, this involves a systematic engagement process requiring a base of specialized knowledge and skills, and the application of techniques for gathering and documenting evidence to support the conclusion. The practitioner considers materiality, and assurance engagement risk, 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.~~

<sup>9</sup> 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 duty of care legal responsibility is owed by the practitioner in relation to that reader or for that purpose. Whether a duty of care legal responsibility is owed will depend on the legal circumstances of each case.

Professional skepticism

36. The practitioner plans and performs an assurance engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the evaluation or measurement of the subject matter not to conform, in a material respect, with the 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 evidence gathering procedures and evaluating the results thereof.

37. ~~[THIS TEXT WAS PREVIOUSLY OLD PARA 38]~~ An assurance engagement rarely involves the authentication of documentation, nor is the practitioner trained as or expected to be an expert in such authentication. However, the practitioner considers the reliability of the information to be used as evidence, e.g., ~~whether the evidence is comprised of original documents,~~ photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.

Sufficiency and appropriateness of evidence

~~3638. 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 quantity of evidence needed is affected by the risk of the evaluation or measurement of the subject matter not nonconforming, in a material respect, with the identified criteria (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.

~~3739.~~ The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. Generalizations about the reliability of various kinds of evidence can be made; however, such generalizations are subject to important exceptions. Even when evidence is obtained from sources external to the entity, circumstances may exist that could affect the reliability of the information obtained. For example, evidence obtained from an independent external source may not be reliable if the source is not knowledgeable. 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 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.

~~38. [THE TEXT OF THIS PARA MOVED TO NEW PARA 37]~~

~~3940. Evidence is more reliable when~~ The practitioner ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature. ~~In these circumstances, the practitioner may obtain more assurance~~ 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 ~~an the~~ entity may increase the assurance the practitioner obtains from a representation from the responsible party. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the practitioner determines what additional evidence-gathering procedures are necessary to resolve the inconsistency.

~~4041.~~ In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance ~~on about~~ a subject matter covering a period ~~of time~~ than ~~on about~~ a subject matter 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 and do not extend to providing any~~ conclusion about whether the process will continue to function in the specified manner in the future.

~~42. [THE FOLLOWING TEXT WAS PREVIOUSLY PART OF OLD PARA 36]~~ The practitioner considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering reasonable procedure for which there is no ~~economically viable~~ alternative. The practitioner uses professional judgment and exercises professional skepticism in evaluating determining the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report.

## Materiality

~~4143. The practitioner considers m~~ Materiality is relevant when the practitioner ~~determining~~ the nature, timing and extent of evidence-gathering procedures and when evaluating assessing whether the evaluation or measurement of a subject matter conforms, ~~in all material respects,~~ with the identified criteria. When considering materiality, the practitioner understands and assesses what factors might influence the decisions of the intended users. For example, when ~~the subject matter is in the form of information and~~ the identified criteria allow for variations in the presentation of ~~that information~~ the evaluation or measurement of the subject matter, the practitioner considers how the adopted presentation ~~adopted~~ might influence the decisions of the intended users. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation or measurement of the subject matter, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the practitioner's judgment.

## Assurance Engagement Risk

~~4244.~~ Assurance engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the evaluation or measurement of the subject matter does not conform, in all material respects, with the identified criteria.<sup>10</sup> 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 in 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, ~~and or~~ extent of evidence-~~gathering~~ procedures ~~is less~~. 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 ~~on the subject matter's conformance with the identified criteria as the basis for a negative form of expression. To be meaningful, the level of assurance obtained is likely to enhance the intended users' confidence about the evaluation or measurement of the subject matter to a degree that is clearly more than inconsequential~~ (see ~~the~~ Appendix 2 for an outline of the differences between a reasonable assurance engagement and a limited-~~assurance~~ engagement).

~~4345.~~ In general, assurance engagement risk can be represented by the following components, although not all of these components will necessarily be present or significant for all assurance engagements:

- (a) The risk that the evaluation or measurement of the subject matter does not conform, in all material respects, with the identified criteria, which in turn consists of:
  - (i) Inherent risk: the susceptibility of the evaluation or measurement of the subject matter to nonconformity, in a material respect, with the identified criteria, assuming that there are no related controls; and
  - (ii) Control risk: the risk that nonconformity, in a material respect, with the identified criteria that could occur will not be prevented, or detected and corrected, on a timely basis by related internal controls. Some control risk will always exist because of the inherent limitations of the design and operation of internal control; and
- (b) Detection risk: the risk that the practitioner will not detect nonconformity, in a material respect, with the identified criteria.

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

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

~~4446.~~ The exact nature, timing and extent of evidence-~~gathering~~ procedures ~~the practitioner undertakes~~ will vary from one engagement to the next. In theory, ~~it may be possible to have~~ infinite variations in evidence-~~gathering~~ procedures are possible. In practice, however, ~~it ordinarily is not possible to~~ these are difficult to communicate ~~fine gradations in the nature, timing and extent of evidence-gathering procedures in a clearly~~ and unambiguously manner. ~~Therefore, this Framework establishes that in any assurance engagement, t~~The

<sup>10</sup> In addition to assurance engagement risk, the practitioner is exposed to risks through loss from litigation, adverse publicity, or other events arising in connection with a subject matter reported on. The latter risks are not part of assurance engagement risk.

practitioner attempts to communicate them clearly and unambiguously reports only in and uses the form appropriate to a reasonable assurance engagement or a limited- assurance engagement.<sup>11</sup>

~~4547. In a reasonable assurance engagement, the practitioner obtains “reasonable assurance” as the basis for a conclusion that the subject matter conforms, in all material respects, with the identified criteria (in the case of an unqualified conclusion). “Reasonable assurance” is a concept relating to the accumulating of evidence necessary for the practitioner to conclude in relation to the evaluation or measurement of the subject matter 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 through as part of an iterative, systematic engagement process involving:~~

- (a) Obtaining an understanding of the subject matter and other engagement circumstances which, depending on the subject matter, includes obtaining an understanding of internal control;
- (b) Based on that understanding, Assessing the risks ~~of that~~ the evaluation or measurement of the subject matter may not conform~~ing~~, in all material respects, with the identified criteria;
- (c) Responding to assessed risks, ~~which include~~ing developing overall responses, and determining the nature, timing and extent of further procedures;
- (d) Performing further procedures ~~that are~~ clearly linked to the identified risks, ~~identified, and include:~~

Using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry. Such further procedures involve:

Substantive procedures, including obtaining corroborating information from sources independent of the entity, and, depending on the nature of the subject matter, tests of the operating effectiveness of controls, and

- ~~• Obtaining corroborative evidence through tests of records and tests of responses to inquiries.~~

- (e) Evaluating the sufficiency and appropriateness of evidence ~~obtained.~~

~~4648. In determining the nature, timing, and extent of evidence gathering procedures for a reasonable assurance engagement, the practitioner considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting a reasonable procedure for which there is no economically viable alternative. “Reasonable assurance” is less than absolute assurance because reducing assurance engagement risk to zero is very rarely attainable or cost beneficial as a result of such factors as:~~

- ~~• The use of selective testing.~~
- ~~• The inherent limitations of internal control.~~

<sup>11</sup> Where the evaluation or measurement of the subject matter is made up of a number of ~~components aspects~~, separate conclusions may be provided on each component aspect. While not all such conclusions need to relate to the same level of evidence-gathering procedures, each conclusion ~~clearly relates is expressed in the form that is appropriate to either a reasonable-assurance or a limited assurance engagement an audit level or a review level.~~



- ~~¶~~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, ~~and~~
  - ~~¶~~In some cases, the characteristics of the subject matter.
- 4749 ~~Both reasonable assurance and~~ While a limited assurance engagements ~~require involves~~ the application of assurance skills and techniques and the gathering of sufficient appropriate evidence ~~as part of an iterative, through a~~ systematic engagement process that includes an ~~obtaining an~~ understanding of the subject matter and other engagement circumstances. ~~¶~~The nature, timing and extent of evidence-gathering ~~procedures in a limited assurance engagement~~ is ~~however,~~ deliberately limited relative to a reasonable assurance engagement. For some subject matters, limitations are set out in an ISA or ~~a subject-matter-specific~~ ISAE, e.g., ISA 910 “Engagements to Review Financial Statements” establishes that sufficient appropriate evidence for reviews of financial statements is obtained primarily through analytical procedures and inquiries. ~~Where there is no~~In the absence of a relevant ISA or ~~subject-matter-specific~~ ISAE, the nature of limitations will vary with the circumstances of the engagement, in particular, the subject matter, ~~and~~ the needs of the intended users and the engaging party, including relevant time and cost constraints. ~~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 on the subject matter’s conformance with the identified criteria. Further, if in a limited assurance engagement a matter comes to the attention of the practitioner that indicates the~~If the practitioner becomes aware of a matter that leads the practitioner to question whether a material modification should be made for the evaluation or measurement of the subject matter ~~does not to~~ conform, in all material respects, with the identified criteria, the practitioner pursues the matter ~~and by~~ performing other procedures ~~sufficient to enable the practitioner to report as appropriate.~~

#### Quantity and Quality of ~~Available~~ Evidence ~~Available~~

4850. ~~Ordinarily, the evidence available to support the evaluation or measurement of the subject matter against the identified criteria will be persuasive rather than conclusive.~~ The quantity or quality of ~~available~~ evidence ~~available will be~~ affected by:
- (a) The characteristics of the subject matter, ~~e.g.~~ ~~For example, less objective evidence might be expected~~ when the subject matter is future oriented, ~~less objective evidence might be expected to exist rather~~ than ~~when the subject matter is~~ historical (see paragraph 28(b)); and
  - (b) ~~The particular~~ Circumstances of the engagement other than the characteristics of the subject matter, when evidence that could reasonably be expected to exist is not available ~~to the practitioner for reasons such as because of, e.g.,~~ 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.

4951. ~~It is not appropriate to provide a~~An unqualified assurance conclusion ~~is not appropriate for either type of~~, in relation to either a reasonable assurance engagement or a limited-assurance engagement ~~in the case of a material, unacceptable limitation on the scope of the practitioner’s work, i.e.,~~ when:

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

~~In such cases the practitioner expresses a qualified or adverse conclusion or a disclaimer of conclusion, or withdraws from the engagement.~~

### Assurance Report

~~5052.~~ The practitioner provides a written report containing a conclusion that conveys the assurance obtained as to whether the evaluation or measurement of the subject matter conforms, in all material respects, with the identified criteria. ISAs and ISAEs establish basic elements for assurance reports. In addition ~~to the assurance report~~, the practitioner considers other reporting responsibilities, including communicating with those charged with governance when it is appropriate to do so.

~~5153.~~ In some engagements the responsible party makes an explicit assertion available to the intended users about whether the evaluation or measurement of the subject matter conforms, in all material respects, with the identified criteria. ~~When such an assertion is made available to the intended users~~ In those cases, then depending on the engagement circumstances, the practitioner's conclusion can be worded ~~in terms of~~ either:

- (a) In terms of tThe responsible party's assertion (e.g., "In our opinion the responsible party's assertion that the evaluation or measurement of the subject matter conforms, in all material respects, with criteria, is ~~presented~~ fairly stated in all material respects"); or
- (b) ~~The~~ Directly in terms of the evaluation or measurement of the subject matter ~~itself~~ (e.g., "In our opinion the evaluation or measurement of the subject matter conforms, in all material respects, with criteria").

~~When In the absence of~~ such an assertion ~~is not made available to the intended users~~, the practitioner's conclusion is, ~~necessarily~~, worded directly in terms of the evaluation or measurement of the subject matter ~~itself~~.

~~5254.~~ In a reasonable assurance engagement, the practitioner expresses the conclusion ~~is expressed~~ in the positive form, e.g., "In our opinion the evaluation or measurement of the subject matter conforms, in all material respects, with criteria." This form of expression conveys "reasonable assurance," ~~which indicates that h~~Having performed evidence-gathering procedures of a nature, timing and extent that were reasonable ~~in the circumstances of the engagement, and~~ given the characteristics of the subject matter and other relevant engagement circumstances ~~as~~ described in the assurance report, the practitioner has obtained sufficient appropriate evidence to reduce assurance engagement risk to an acceptably low level.

~~5355.~~ In a limited ~~-~~assurance engagement, the practitioner expresses the conclusion ~~is expressed~~ in the negative form, e.g., "Based on our work described in this report, nothing has come to our attention that causes us to believe that the evaluation or measurement of the subject matter does not conform, in all material respects, with *criteria*," or "Based on our work described in this report, we are not aware of any material modification that needs to be made to the evaluation or measurement of the subject matter for it to conform with the criteria." This form of expression conveys a level of "limited assurance" that is

proportional to the level of the practitioner's evidence-gathering procedures, given the characteristics of the subject matter and other engagement circumstances ~~as~~ described in the assurance report.

~~5456~~. A practitioner does not express an unqualified conclusion for either type of assurance engagement when the following circumstances exist and, in the practitioner's judgment, the effect of the matter is or may be material:

- (a) ~~T~~there is an unacceptable limitation on the scope of the practitioner's work (see paragraph 51). The practitioner expresses a qualified conclusion or a disclaimer of conclusion depending on how material the limitation is. In some cases the practitioner considers withdrawing from the engagement;
- (b) In those cases where:
  - (i) The practitioner's conclusion is worded in terms of the responsible party's assertion, and that assertion is not fairly stated; or
  - (ii) The practitioner's conclusion is worded directly in terms of the evaluation or measurement of the subject matter, and that evaluation or measurement does not conform, in all material respects, with the identified criteria.

~~The practitioner expresses a qualified or adverse conclusion depending on how material the matter is there is a disagreement with the responsible party regarding the subject matter's conformity, in all material respects, with the criteria, e.g., in a financial statement audit or review, this includes a disagreement regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial statement disclosures; or~~

- (c) When it is discovered after the engagement has been accepted, that Tthe criteria are unsuitable or the subject matter is not appropriate for an assurance engagement. The practitioner expresses:
  - (i) A qualified conclusion or adverse conclusion depending on how material the matter is, when the unsuitable criteria or inappropriate subject matter is likely to mislead the intended users; or
  - (ii) A qualified conclusion or a disclaimer of conclusion depending on how material the matter is, in other cases.

~~– In some cases the practitioner considers withdrawing from the engagement.~~

~~Depending on how material the mater(s) is, the circumstances described in (a) would lead to a qualified conclusion or a disclaimer of conclusion. The circumstances described in (b) and (c) would lead to a qualified conclusion or an adverse conclusion.~~

### Inappropriate Use of the Practitioner's Name

~~5557~~. A practitioner is associated with a subject matter when the practitioner ~~attaches a reports to~~ on information about that subject matter or consents to the use of the practitioner's name in a professional connection with that subject matter. If the practitioner is not associated in this manner, third parties can assume no responsibility of the practitioner. ~~–If the practitioner learns that a party is inappropriately using the practitioner's name in association with a subject matter, the practitioner requires the party to cease doing so, and~~ The practitioner also considers what ~~further other~~ steps may be needed, if any, need to be taken, such as informing any known third party users of the inappropriate use of the

practitioner's name. ~~The practitioner may also believe it necessary to take other action, e.g., to or~~ seeking legal advice.

**Effective Date**

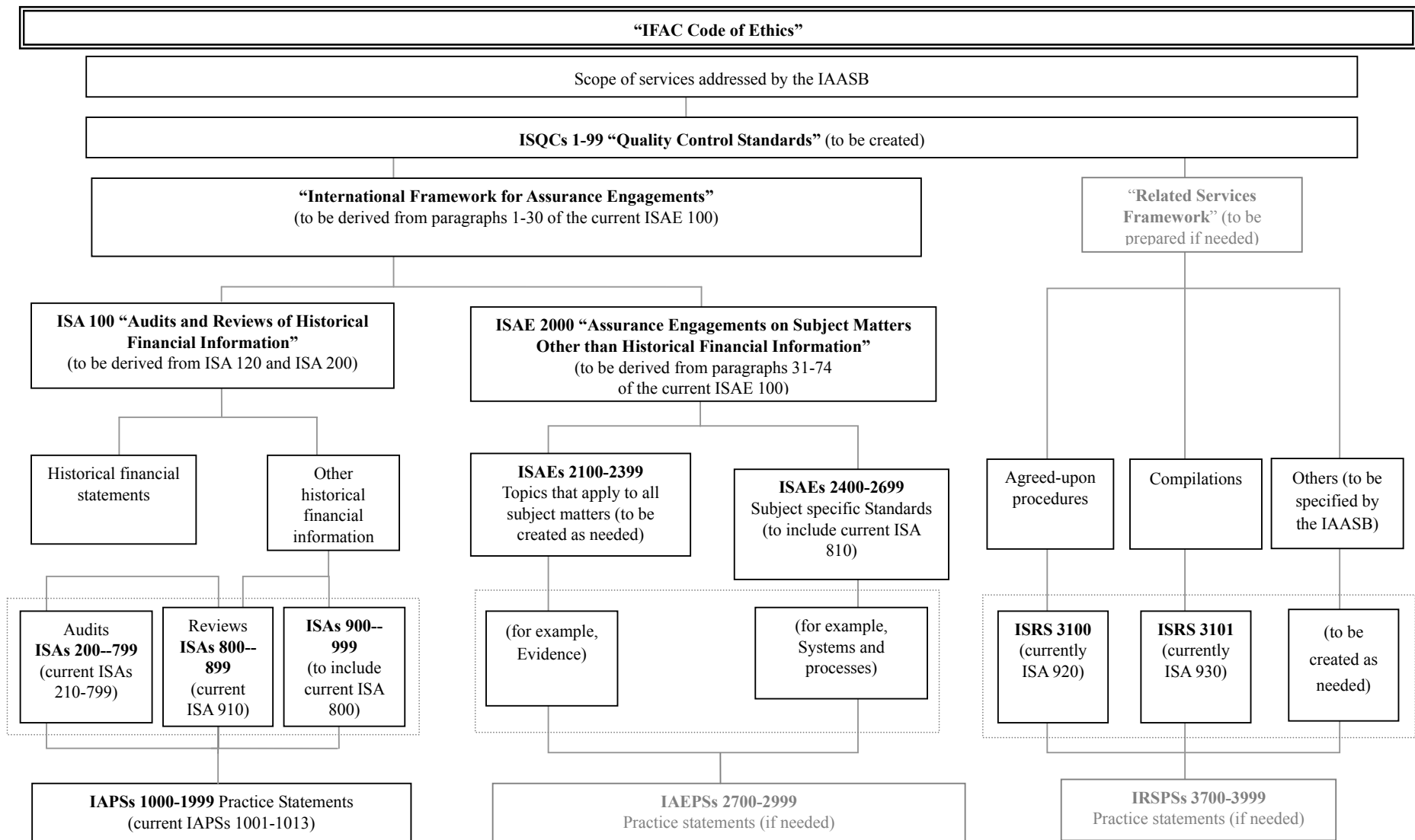
~~5658~~. This Framework provides a frame of reference for assurance engagements where the assurance report is dated on or after January 1, 2005. Earlier reference is permissible.

**Public Sector Perspective**

- 1. 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 **I** should be adopted.*

## Appendix 1

## Structure of the IAASB's Technical Pronouncements



## 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 [referenced](#)).

Type of engagement	Objective	Evidence-gathering procedures <sup>1</sup>	The assurance report
<b>Reasonable-assurance engagement</b>	A reduction in 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 in the practitioner's conclusion <u>by reducing assurance engagement risk to an acceptably low level in the circumstances of the engagement</u> (Paragraph 8)	Sufficient appropriate evidence is obtained <u>as part of through</u> a systematic engagement process that includes: <ul style="list-style-type: none"> <li>obtaining an understanding of the engagement circumstances;</li> <li>assessing risks;</li> <li>responding to assessed risks;</li> <li>performing further procedures using: <ul style="list-style-type: none"> <li>a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry;</li> <li>Such further procedures involve substantive procedures, including obtaining corroborating information, and, depending on the nature of the subject matter, tests of the operating effectiveness of controls; and</li> </ul> </li> <li>obtaining corroborating evidence through tests of records and tests of responses to inquiries; and</li> <li>evaluating the evidence obtained (Paragraphs 475 and 486).</li> </ul>	Description of the engagement circumstances, and a positive form of expression in the conclusion (Paragraph 542)
<b>Limited-assurance engagement</b>	A reduction in assurance engagement risk that is acceptable in the circumstances of the engagement, but is less than for an audit level engagement. To obtain "limited assurance" as the basis for a negative form of expression in the practitioner's conclusion <u>by reducing assurance engagement risk to a level that is acceptable in the circumstances of the engagement but which is less than for a reasonable assurance engagement</u> (Paragraph 8).	Sufficient appropriate evidence is obtained <u>as part of through</u> a systematic engagement process that includes <u>obtaining</u> an understanding of the subject matter and other engagement circumstances, but in which procedures are deliberately limited relative to a reasonable assurance engagement. (Paragraph 479)	Description of the engagement circumstances, including limitations on the evidence-gathering procedures, and a negative form of expression in the conclusion (Paragraph 553)

<sup>1</sup> A detailed discussion of evidence-gathering requirements is only possible within ISAEs for specific subject matters.