

INTERNATIONAL FRAMEWORK FOR ASSURANCE ENGAGEMENTS

Introduction

1. This Framework defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply. It provides a frame of reference for:
 - (a) Practitioners when performing assurance engagements.
 - (b) Others involved with assurance engagements, including the intended users of an assurance report and the responsible party; and
 - (c) The International Auditing and Assurance Standards Board (IAASB) in its development of ISAs, ISREs and ISAEs and related documents.
2. This Framework does not itself establish standards or provide procedural requirements for the performance of assurance engagements. ISAs, ISREs and ISAEs contain objectives, requirements and related material, consistent with the concepts in this Framework, for the performance of assurance engagements.

Ethical Principles and Quality Control Standards

- 4, 5 and 6 [THIS IS NOW COVERED BY ISAE 3000 and in the ISAs and ISREs].

Definition and Objective of an Assurance Engagement

7. **DEFINITION MAY CHANGE – SEE SUGGESTION IN ISAE 3000** “Assurance engagement” means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of an underlying subject matter against criteria.
8. **THIS IS EXPLAINED IN ISAE 3000, BUT ISAE 3000 DOES NOT HAVE THE FINANCIAL REPORTING EXAMPLES** The outcome of the evaluation or measurement of an underlying subject matter is the information that results from applying the criteria to the underlying subject matter. For example:
 - The recognition, measurement, presentation and disclosure represented in the financial statements (outcome) result from measuring an entity's financial position, financial performance and cash flows (underlying subject matter) by applying a financial reporting framework, such as International Financial Reporting Standards (criteria).
 - A statement about the effectiveness of internal control (outcome) results from evaluating the effectiveness of an entity's internal control process (underlying subject matter) by applying a criteria such as those described in ISAE 3402¹ (criteria).

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

Misstatement

9. [THIS IS NOW COVERED BY ISAE 3000]

¹ ISAE 3402, “[Assurance Reports on Controls at a Service Organization](#).”

Direct Engagements versus Attestation Engagements

10. [THIS IS NOW COVERED BY ISAE 3000]

Reasonable Assurance versus Limited Assurance

11. [THIS IS NOW COVERED BY ISAE 3000]

Scope of the Framework

12. Not all engagements performed by practitioners are assurance engagements. Other frequently performed engagements that do not meet the above definition (and therefore are not covered by this Framework) include:
- Engagements covered by International Standards for Related Services, such as agreed-upon procedures engagements and compilations of financial or other information.
 - The preparation of tax returns where no conclusion conveying assurance is expressed.
 - Consulting (or advisory) engagements,² such as management and tax consulting.
- 12x. In some engagements, the practitioner has what is known as a derivative reporting responsibility, i.e., a responsibility to report to a party to the engagement or another party (for example, a regulator), matter such as possible noncompliance with laws or regulations or matters the practitioner considers may be of interest to that party, when such matters come to the practitioner's attention during the engagement, but where the practitioner has no responsibility to perform procedures to identify such matters. Having a derivative reporting responsibility does not make the engagement an assurance engagement because no procedures in addition to those carried out in the normal course of the engagement would be performed and, accordingly, a meaningful level of assurance that such matters as may exist will be identified and reported will not be achieved.
13. An assurance engagement may be part of a larger engagement, for example, when a business acquisition consulting engagement includes a requirement to convey assurance regarding historical or prospective financial information. In such circumstances, this Framework is relevant only to the assurance portion of the engagement and the assurance report should be issued separately from the report on other portions of the engagement except any to which International Standards for Related Services apply.
14. The following engagements, which may meet the definition in paragraph 7, need not be performed in accordance with this Framework:
- (a) Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters; and
 - (b) Engagements that include professional opinions, views or wording from which a user may derive some assurance, if all of the following apply:
 - (i) Those opinions, views or wording are merely incidental to the overall engagement;
 - (ii) Any written report issued is expressly restricted for use by only the intended users specified in the report;

² Consulting engagements employ a professional accountant's technical skills, education, observations, experiences, and knowledge of the consulting process. The consulting process is an analytical process that typically involves some combination of activities relating to: objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results, and sometimes implementation and follow-up. Reports (if issued) are generally written in a narrative (or "long form") style. Generally the work performed is only for the use and benefit of the client. The nature and scope of work is determined by agreement between the professional accountant and the client. Any service that meets the definition of an assurance engagement is not a consulting engagement but an assurance engagement.

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

Reports on Non-Assurance Engagements

- 15. A practitioner reporting on an engagement that is not an assurance engagement within the scope of this Framework, clearly distinguishes that report from an assurance report. So as not to confuse users, a report that is not an assurance report avoids, for example:
 - Implying compliance with this Framework, ISAs, ISREs or ISAEs.
 - Inappropriately using the words “assurance,” “audit” or “review.”
 - Including a statement that could reasonably be mistaken for a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation or measurement of an underlying subject matter against criteria.
- 16. The practitioner and the responsible party may agree to apply the principles of this Framework to an engagement when there are no intended users other than the responsible party but where all other requirements of the ISAs, ISREs or ISAEs are met. In such cases, the practitioner's report includes a statement restricting the use of the report to the responsible party.

Engagement Acceptance

- 17. [THIS IS NOW COVERED BY ISAE 3000]
- 18. When a potential engagement cannot be accepted as an assurance engagement because it does not exhibit all the characteristics in the previous paragraph, the engaging party may be able to identify a different engagement that will meet the information needs of intended users. For example:
 - (a) If the original criteria were not suitable, an assurance engagement may still be performed if:
 - (i) The engaging party can identify an aspect of the original underlying subject matter for which those criteria are suitable, and the practitioner could perform an assurance engagement with respect to that aspect as an underlying subject matter in its own right. In such cases, the assurance report makes it clear that it does not relate to the original underlying subject matter in its entirety; or
 - (ii) Alternative criteria suitable for the underlying original subject matter can be selected or developed.
 - (b) The engaging party may request an engagement that is not an assurance engagement, such as a consulting or an agreed-upon procedures engagement.
- 19. [THIS IS NOW COVERED BY ISAE 3000].

Elements of an Assurance Engagement

- 20. [THIS IS NOW COVERED BY ISAE 3000].

Three Party Relationship

- 21–22 [THIS IS NOW COVERED BY ISAE 3000].

Practitioner

- 23. The term “practitioner” as used in this Framework is broader than the term “auditor” as used in ISAs and ISREs, which relates only to practitioners performing audit or review engagements with respect to historical financial information.
- 24. [THIS IS NOW COVERED BY ISAE 3000].

Responsible Party

25–26 [THIS IS NOW COVERED BY ISAE 3000].

Intended Users

27–30 [THIS IS NOW COVERED BY ISAE 3000].

Subject Matter

THIS PARAGRAPH AND APPENDIX 2 COULD BE INCLUDED IN ISAE 3000, BUT THE DISCUSSION AT THE MARCH MEETING INDICATED THAT IF THEY WERE, CONSIDERATION SHOULD BE GIVEN TO DROPPING THE FINANCIAL STATEMENT EXAMPLE

31. The underlying subject matter of an assurance engagement can take many forms, such as the following (see also Appendix 2 for a classification of potential underlying subject matters and further examples):
- Financial performance or conditions (for example, historical or prospective financial position, financial performance and cash flows) for which the subject matter information may be the recognition, measurement, presentation and disclosure represented in financial statements.
 - Non-financial performance or conditions (for example, performance of an entity) for which the subject matter information may be key indicators of efficiency and effectiveness.
 - Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.
 - Systems and processes (for example, an entity's internal control or IT system) for which the subject matter information may be statement about effectiveness.
 - Behavior (for example, corporate governance, compliance with regulation, human resource practices) for which the subject matter information may be a statement of compliance or a statement of effectiveness.

32–33 [THIS IS NOW COVERED BY ISAE 3000]

Criteria

34. [FIRST SENTENCE HAS BEEN PICKED UP IN ISAE 3000. THE REST IS SUBSUMED IN OTHER TEXT IN ISAE 3000, EXCEPT THE DISTINCTION BETWEEN FORMAL AND INFORMAL HAS BEEN DROPPED]

35–38. [THIS IS NOW COVERED BY ISAE 3000]

Evidence

39. [NOW COVERED BY ISAE 3000].

Sufficiency and Appropriateness of Evidence

42. [THIS IS NOW COVERED BY ISAE 3000]
43. [THIS IS NOW COVERED BY ISAE 3000]
44. [THIS IS NOW COVERED BY ISAE 3000]
45. [THIS IS NOW COVERED BY ISAE 3000]
46. [NOW COVERED IN EXPANDED DISCUSSION OF LIMITATIONS AND IN ISAE 3000]

Materiality

47. [THIS IS NOW COVERED BY ISAE 3000]

Assurance Engagement Risk

- 48. [THIS IS NOW COVERED BY ISAE 3000]
- 49. [THIS IS NOW COVERED BY ISAE 3000]

Nature, Timing and Extent of Evidence-gathering Procedures

- 50. [THIS IS NOW COVERED BY ISAE 3000]

Quantity and Quality of Available Evidence

- 54–55. [THIS IS NOW COVERED BY ISAE 3000]

Inherent Limitations of an Assurance Engagement

[THIS SECTION HAS BEEN ADAPTED FROM ISA 200.45–52. IF THIS SECTION IS RETAINED IN THE FRAMEWORK, NEED IT STILL BE INCLUDED IN ISA 200 ALSO?]

- A. The practitioner is not expected to, and cannot, reduce assurance engagement risk to zero and cannot therefore obtain absolute assurance that the subject matter information is free from material misstatement. This is because there are inherent limitations of an assurance engagement, which result in most of the engagement evidence on which the practitioner draws conclusions and bases the assurance conclusion being persuasive rather than conclusive. The inherent limitations of an assurance engagement arise from:
 - The nature of evaluation or measurement;
 - The nature of assurance engagement procedures; and
 - The need for the assurance engagement to be conducted within a reasonable period of time and at a reasonable cost.

The Nature of Evaluation or Measurement

- B. The evaluation or measurement of subject matter information typically involves judgment in applying the requirements of the applicable criteria to the facts and circumstances of the underlying subject matter. In addition, many aspects of evaluation or measurement involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made. Consequently, some aspects of evaluation or measurement are subject to an inherent level of variability which cannot be eliminated by the application of additional evidence-gathering procedures. For example, this is often the case when the subject matter information includes estimates. Nevertheless, estimates need to be reasonable in the context of the engagement circumstances, and to the extent practicable free of bias.

The Nature of Assurance Procedures

- C. There are practical and legal limitations on the practitioner's ability to obtain engagement evidence. For example:
 - There is the possibility that parties to the engagement may not provide, intentionally or unintentionally, the complete information that is relevant to the evaluation or measurement of the subject matter information or that has been requested by the practitioner. Accordingly, the practitioner cannot be certain of the completeness of information, even though the practitioner has performed engagement procedures to obtain assurance that all relevant information has been obtained.
 - Fraud may involve sophisticated and carefully organized schemes designed to conceal it. Therefore, engagement procedures used to gather engagement evidence may be ineffective for detecting an intentional misstatement that involves, for example, collusion to falsify documentation which may cause the practitioner to believe that engagement evidence is valid when it is not. The practitioner is neither trained as nor expected to be an expert in the authentication of documents.

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- An assurance engagement is ordinarily not an official investigation into alleged wrongdoing. Accordingly, the practitioner is ordinarily not given specific legal powers, such as the power of search, which may be necessary for such an investigation.

Timeliness of and the Balance between Benefit and Cost

- D. The matter of difficulty, time, or cost involved is not in itself a valid basis for the practitioner to omit an engagement procedure for which there is no alternative or to be satisfied with engagement evidence that is less than persuasive. Appropriate planning assists in making sufficient time and resources available for the conduct of the engagement. Notwithstanding this, the relevance of information, and thereby its value, tends to diminish over time, and there is a balance to be struck between the reliability of information and its cost. Therefore, there is ordinarily an expectation by intended users that the practitioner will form a conclusion on the subject matter information within a reasonable period of time and at a reasonable cost, recognizing that it is impracticable to address all information that may exist or to pursue every matter exhaustively on the assumption that information is in error or fraudulent until proved otherwise.
- E. Consequently, it is necessary for the practitioner to:
- Plan the engagement so that it will be performed in an effective manner;
 - Direct evidence-gathering effort to areas most expected to contain risks of material misstatement with correspondingly less effort directed at other areas; and
 - Use testing and other means of examining populations for misstatements.

Other Matters that Affect the Inherent Limitations of an Assurance Engagement

- F. In the case of certain matters, the potential effects of the inherent limitations on the practitioner's ability to detect material misstatements are particularly significant. Such matters include, when relevant to the engagement circumstances:
- Fraud, particularly fraud involving senior management or collusion.
 - The existence and completeness of related party relationships and transactions
 - The occurrence of non-compliance with laws and regulations.
 - Future events or conditions that may cause an entity to cease to continue as a going concern.

Subject matter-specific ISAEs identify specific assurance procedures to assist in mitigating the effect of the inherent limitations.

- G. Because of the inherent limitations of an assurance engagement, there is an unavoidable risk that some material misstatements of the subject matter information may not be detected, even though the engagement is properly planned and performed in accordance with ISAEs. Accordingly, the subsequent discovery of a material misstatement of the subject matter information does not by itself indicate a failure to conduct an assurance engagement in accordance with ISAEs. However, the inherent limitations of an assurance engagement are not a justification for the practitioner to be satisfied with less-than-persuasive engagement evidence. Whether the practitioner has performed an engagement in accordance with ISAEs is determined by the engagement procedures performed in the circumstances, the sufficiency and appropriateness of the engagement evidence obtained as a result thereof and the suitability of the practitioner's assurance report based on an evaluation of that engagement evidence in light of the overall objectives of the practitioner.

Assurance Report

56. [ALL BUT THE FOLLOWING NOW COVERED BY ISAE 3000] ISAs, ISREs and ISAEs establish basic elements for assurance reports.
- 57–60. [THIS IS NOW COVERED BY ISAE 3000]

Inappropriate Use of the Practitioner's Name

IS THIS THE RIGHT PLACE FOR THIS PARA??

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

Public Sector Perspective

TREATMENT OF THIS NEEDS TO BE CONSISTENT WITH WHERE WE END UP WITH ISAE 3000

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 1 should be adopted.*

Appendix 1

Differences Between Reasonable Assurance Engagements and Limited Assurance Engagements **IS THIS USEFUL/AS USEFUL AS IT COULD BE??**

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).

Type of engagement	Objective	Evidence-gathering procedures ³	The assurance report
Reasonable assurance engagement	A reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement, as the basis for a positive form of expression of the practitioner's conclusion (Paragraph 11)	<p>Sufficient appropriate evidence is obtained as part of a systematic engagement process that includes:</p> <ul style="list-style-type: none"> • Obtaining an understanding of the engagement circumstances; • Assessing risks; • Responding to assessed risks; • Performing further procedures using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry. Such further procedures involve substantive procedures, including , where applicable, obtaining corroborating information, and depending on the nature of the underlying subject matter, tests of the operating effectiveness of 	Description of the engagement circumstances, and a positive form of expression of the conclusion (Paragraph 58)

³ A detailed discussion of evidence-gathering requirements is only possible within ISAEs for specific subject matters.

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Type of engagement	Objective	Evidence-gathering procedures ³	The assurance report
		<p>controls; and</p> <ul style="list-style-type: none"> Evaluating the evidence obtained (Paragraphs 51 and 52) 	
Limited assurance engagement	A reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion (Paragraph 11)	Sufficient appropriate evidence is obtained as part of a systematic engagement process that includes obtaining an understanding of the underlying subject matter and other engagement circumstances, but in which procedures are deliberately limited relative to a reasonable assurance engagement (Paragraph 53)	Description of the engagement circumstances, and a negative form of expression of the conclusion (Paragraph 59)

Appendix 2

Categorization Underlying Subject Matters

The table below shows a categorization of the range of possible underlying subject matters with examples of some. While those categories for which no example is given exist, it is unlikely that assurance engagements with respect to them would be undertaken. The categorization is not necessarily complete, and the categories are not necessarily mutually exclusive. Also, in some cases, the examples are the subject matter information, in other cases they are the subject matter or merely an indication of the type of question that information could assist with, whichever is more meaningful in the circumstances.

Information about:		Historical Information	Future Oriented Information
Financial	Performance	<ul style="list-style-type: none"> Income Statement 	<ul style="list-style-type: none"> Forecast/projected cash flow
	Position	<ul style="list-style-type: none"> Statement of Financial Position 	<ul style="list-style-type: none"> Forecast/projected financial position
Non-Financial	Performance/ Use of Resources/ Value for Money	<ul style="list-style-type: none"> GHG statement KPIs Statement on effective use of resources Statement on Value for Money 	<ul style="list-style-type: none"> Expected emissions reductions attributable to a new in technology, or GHGs to be captured by planting trees Statement that a proposed action will provide value for money
	Condition	<ul style="list-style-type: none"> Description of a system/process, e.g. internal control at a service organization Physical characteristics, e.g., the size of leased property 	
System/ Process	Design	<ul style="list-style-type: none"> Effectiveness of the design of controls at a service organization 	<ul style="list-style-type: none"> Effectiveness of the design of proposed controls for a new production process
	Operation/ Performance	<ul style="list-style-type: none"> Actual effectiveness of procedures for hiring and training staff 	
Aspects of Behavior	Compliance	<ul style="list-style-type: none"> An entity's compliance with e.g., loan covenants, or specific legal or regulatory requirements 	
	Human Behavior	<ul style="list-style-type: none"> Evaluation of audit committee effectiveness 	
	Other	<ul style="list-style-type: none"> The fitness for purpose of a software package 	<ul style="list-style-type: none"> An entity's creditworthiness