

**ASAE 3000**

(July 2007)

**Standard on Assurance  
Engagements ASAE 3000**  
*Assurance Engagements  
Other than Audits or Reviews  
of Historical Financial  
Information*

Issued by the **Auditing and Assurance Standards Board**



**Australian Government**

**Auditing and Assurance Standards Board**

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SUPERSEDED

## PREFACE

### **Reasons for Issuing Standard on Assurance Engagements ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information**

The Auditing and Assurance Board (AUASB) makes Auditing Standards under section 336 of the *Corporations Act 2001* for the purposes of the corporation's legislation and formulates auditing and assurance standards for other purposes.

The AUASB issues Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* pursuant to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), as from 1 July 2004. Under section 227B of the ASIC Act the AUASB may formulate Assurance Standards for other purposes.

### **Main Features**

This Standard on Assurance Engagements establishes mandatory requirements and provides explanatory guidance for undertaking and reporting on assurance engagements other than audits or reviews of historical financial information covered by Auditing Standards (ASAs) or Auditing Standards on Review Engagements (ASREs).

### **Operative Date**

This Standard on Assurance Engagements is operative for reporting periods commencing on or after 1 July 2007.

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**Main changes from AUS 110 (June 2004) Assurance Engagements Other than Audits or Reviews of Historical Financial Information**

The main differences between this Standard on Assurance Engagements (ASAE) and the Auditing Standard issued by the Auditing & Assurance Standards Board of the Australian Accounting Research Foundation, AUS 110 (June 2004) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, are that in this ASAE:

1. The word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an assurance practitioner's mandatory requirements, whereas an assurance practitioner's degree of responsibility was described in AUS 110 by the word 'should'.
2. The explanatory paragraphs provide guidance and illustrative examples to assist the assurance practitioner in fulfilling the mandatory requirements, whereas in AUS 110 some obligations were implied within certain explanatory paragraphs.
3. The term 'practitioner' has been replaced with 'assurance practitioner' to extend the application of the ASAE to other professionals. Assurance practitioner has been defined as follows:
  - (a) for the purpose of this ASAE, an "assurance practitioner" means a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services (paragraph 4).
4. The definition of reasonable assurance has been expanded as follows:
  - (a) reasonable assurance means a high, but not absolute, level of assurance (paragraph 5(a)).
5. The following implied obligation in AUS 110 has been elevated and re-stated as a specific mandatory requirement:
  - (a) the assurance practitioner shall comply with this ASAE and other relevant ASAEs when performing an assurance engagement other than an audit or review of historical financial information covered by ASAs or ASREs (paragraph 6).
6. The following additional and/or extended mandatory requirements, not in AUS 110, have been included:

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- (a) this Standard on Assurance Engagements (ASAE) applies to assurance engagements other than audits or reviews of historical financial information (paragraph 1);
- (b) where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with a relevant mandatory requirement in this ASAE, the assurance practitioner shall:
  - (i) if possible, perform appropriate alternative evidence-gathering procedures; and
  - (ii) document in the working papers:
    - the circumstances surrounding the inability to comply;
    - the reasons for the inability to comply; and
    - justification of how alternative evidence-gathering procedures achieve the objectives of the mandatory requirement.

When the assurance practitioner is unable to perform appropriate alternative evidence-gathering procedures, the assurance practitioner shall consider the implications for the assurance practitioner's report (paragraph 8);

- (c) the assurance practitioner shall comply with the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour (paragraph 9);
- (d) the assurance practitioner shall implement procedures to address the following elements of a quality control system that apply to the individual assurance engagement:
  - (i) leadership responsibilities for quality on the assurance engagement;
  - (ii) ethical requirements;
  - (iii) acceptance and continuance of client relationships and specific assurance engagements;

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- (iv) assignment of assurance engagement teams;
- (v) assurance engagement performance; and
- (vi) monitoring (paragraph 12);
- (e) the assurance practitioner shall accept (or continue where applicable) an assurance engagement only if, on the basis of a preliminary knowledge of the assurance engagement circumstances, nothing comes to the attention of the assurance practitioner to indicate that the requirements of the fundamental ethical principles or of the ASAEs will not be satisfied (paragraph 16);
- (f) the assurance practitioner shall agree on the terms of the assurance engagement with the engaging party, which shall be recorded in writing by the assurance practitioner and forwarded to the engaging party. When the assurance engagement is undertaken pursuant to legislation, the minimum applicable assurance engagement terms shall be those contained in the legislation (paragraph 20);
- (g) when the terms of an assurance engagement are changed, the assurance practitioner shall agree on the new terms with the engaging party and confirm them in writing (paragraph 23);
- (h) the assurance practitioner shall prepare, on a timely basis, documentation that is sufficient and appropriate to provide:
  - (i) a basis for the assurance practitioner's conclusion; and
  - (ii) evidence that the assurance engagement was performed in accordance with ASAEs (paragraph 70);
- (i) an assurance practitioner shall modify the assurance report by adding an emphasis of matter paragraph to highlight a matter that is fundamental to the users' understanding of the subject matter information. The addition of an emphasis of matter paragraph does not affect the assurance practitioner's conclusion (paragraph 82); and
- (j) in some cases the assurance practitioner shall consider withdrawing from the assurance engagement (paragraph 83(c)).

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7. Explanatory guidance on the level of documentation has been enhanced at paragraph 72 and explanatory guidance on modifications has been included at paragraph 81.
8. Footnote references have been made to ASAs that provide helpful guidance to assurance practitioners (paragraphs 13, 21, 26, 48, 57, 65, 66, 71, 79, 81 and 85).
9. References to paragraphs in the *Framework for Assurance Engagements* have been replaced with the following explanatory guidance paragraphs:
  - (a) preliminary knowledge of the assurance engagement circumstances prior to acceptance of an assurance engagement (paragraph 17);
  - (b) characteristics of an appropriate subject matter (paragraph 34); and
  - (c) characteristics of suitable criteria (paragraph 36).
10. The Public Sector Perspective section is not included as this ASAE is sector neutral.

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates this Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* as set out in paragraphs 1 to 89, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

This Standard on Assurance Engagements is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of the AUASB on how the Standards on Assurance Engagements are to be understood, interpreted and applied.

The mandatory requirements of this Standard on Assurance Engagements are set out in **bold-type** paragraphs.

Dated 9 July 2007

M H Kelsall  
Chairman - AUASB

## STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3000

### *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

#### Application

- 1 This Standard on Assurance Engagements (ASAE) applies to assurance engagements other than audits or reviews of historical financial information.

#### Operative Date

- 2 This ASAE is operative for reporting periods commencing on or after 1 July 2007.

#### Introduction

- 3 The purpose of this ASAE is to establish mandatory requirements and to provide explanatory guidance for undertaking and reporting on assurance engagements other than audits or reviews of historical financial information covered by Auditing Standards (ASAs) or Standards on Review Engagements (ASREs). This ASAE applies to assurance practitioners and others involved in performing assurance engagements.
- 4 For the purpose of this ASAE, an “assurance practitioner” means a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services.
- 5 This ASAE uses the terms “reasonable assurance engagement” and “limited assurance engagement” to distinguish between the two types of assurance engagements that an assurance practitioner may perform:
  - (a) A reasonable assurance engagement. The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the

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circumstances of the assurance engagement<sup>1</sup> as the basis for a positive form of expression of the assurance practitioner's conclusion. Reasonable assurance means a high, but not absolute, level of assurance.

- (b) A limited assurance engagement. The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the assurance practitioner's conclusion.

*Relationship with Other ASAEs, ASAs and ASREs*

**6 The assurance practitioner shall comply with this ASAE and other relevant ASAEs when performing an assurance engagement other than an audit or review of historical financial information covered by ASAs or ASREs.**

7 This ASAE has been written for general application to assurance engagements other than audits or reviews of historical financial information covered by ASAs or ASREs. Other ASAEs may relate to topics that apply to all subject matters or be subject matter specific. Although ASAs and ASREs do not apply to assurance engagements covered by ASAEs, they may nevertheless provide helpful guidance to assurance practitioners.

*Inability to Comply with Mandatory Requirements*

**8 Where in rare and exceptional circumstances, factors outside the assurance practitioner's control prevent the assurance practitioner from complying with a relevant mandatory requirement in this ASAE, the assurance practitioner shall:**

- (a) **if possible, perform appropriate alternative evidence-gathering procedures; and**  
(b) **document in the working papers:**

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<sup>1</sup> Engagement circumstances include the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, 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, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

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- (i) **the circumstances surrounding the inability to comply;**
- (ii) **the reasons for the inability to comply; and**
- (iii) **justification of how alternative evidence-gathering procedures achieve the objectives of the mandatory requirement.**

**When the assurance practitioner is unable to perform appropriate alternative evidence-gathering procedures, the assurance practitioner shall consider the implications for the assurance practitioner's report.**

### **Ethical Requirements**

- 9 **The assurance practitioner shall comply with the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.**
- 10 The applicable code of conduct of a professional accounting body<sup>2</sup> provides appropriate guidance on the application of fundamental ethical principles to assurance engagements.
- 11 The applicable code of conduct of a professional accounting body 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:
  - (a) identify and apply safeguards to eliminate the threats; or
  - (b) reduce them to an acceptable level,such that independence of mind and independence in appearance are not compromised.

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<sup>2</sup> The applicable code of conduct of the professional accounting bodies is *APES 110 Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional and Ethical Standards Board. This code of conduct has been adopted by CPA Australia, National Institute of Accountants and The Institute of Chartered Accountants in Australia.  
In addition, codes of conduct issued by other professional bodies may apply.

## **Quality Control**

- 12 **The assurance practitioner shall implement procedures to address the following elements of a quality control system that apply to the individual assurance engagement:**
- (a) **leadership responsibilities for quality on the assurance engagement;**
  - (b) **ethical requirements;**
  - (c) **acceptance and continuance of client relationships and specific assurance engagements;**
  - (d) **assignment of assurance engagement teams;**
  - (e) **assurance engagement performance; and**
  - (f) **monitoring.**
- 13 The quality control requirements for firms<sup>3</sup>, specify the obligations of a firm of professional accountants to establish a system of quality control<sup>4</sup> designed to provide it with reasonable assurance that the firm and its personnel comply with ASAs, ASAEs and ASREs, the applicable code of conduct of a professional accounting body, and regulatory and legal requirements, and that the assurance reports issued by the assurance firm or engagement partners are appropriate in the circumstances.

## **Assurance Engagement Acceptance and Continuance**

- 14 **The assurance practitioner shall accept (or continue where applicable) an assurance engagement only if the subject matter is the responsibility of a party other than the intended users or the assurance practitioner.**
- 15 The responsible party can be one of the intended users, but not the only one. Acknowledgement by the responsible party provides evidence that the appropriate relationship exists, and also establishes a basis for a common understanding of the responsibility of each

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<sup>3</sup> The quality control requirements for firms are set out in APES 320 *Quality Control for Firms*, as issued from time to time by the Accounting Professional and Ethical Standards Board. These quality control requirements for firms have been adopted by CPA Australia, National Institute of Accountants and The Institute of Chartered Accountants in Australia.

<sup>4</sup> The quality control procedures relevant to an audit engagement are contained in Auditing Standard ASA 220 *Quality Control for Audits of Historical Financial Information*, and may be helpful in determining quality control procedures applicable to an assurance engagement.

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party. A written acknowledgement is the most appropriate form of documenting the responsible party's understanding. In the absence of an acknowledgement of responsibility, the practitioner ordinarily considers:

- (a) whether it is appropriate to accept the assurance engagement. Accepting it may be appropriate when, for example, other sources, such as legislation or a contract, indicate responsibility; and
- (b) if the assurance engagement is accepted, whether to disclose these circumstances in the assurance report.

**16     The assurance practitioner shall accept (or continue where applicable) an assurance engagement only if, on the basis of a preliminary knowledge of the assurance engagement circumstances, nothing comes to the attention of the assurance practitioner to indicate that the requirements of the fundamental ethical principles or of the ASAEs will not be satisfied.**

17     Under paragraph 16 of this ASAE, the assurance practitioner does not accept the assurance engagement unless the preliminary knowledge of the assurance engagement circumstances indicates that:

- (a) relevant ethical requirements, such as independence and professional competence will be satisfied; and
- (b) the assurance engagement exhibits the following characteristics:
  - (i) the subject matter is appropriate;
  - (ii) the criteria to be used are suitable and are available to the intended users;
  - (iii) the assurance practitioner has access to sufficient appropriate evidence to support the assurance practitioner's conclusion;
  - (iv) the assurance 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

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- (v) the assurance practitioner is satisfied that there is a rational purpose for the assurance engagement. If there is a significant limitation on the scope of the assurance practitioner's work, it may be unlikely that the assurance engagement has a rational purpose. Also, an assurance practitioner may believe the engaging party intends to associate the assurance practitioner's name with the subject matter in an inappropriate manner.

Also, if the party engaging the assurance practitioner (the "engaging party") is not the responsible party, the assurance practitioner ordinarily considers the effect of this on access to records, documentation and other information the assurance practitioner may need to complete the assurance engagement.

**18 The assurance practitioner shall accept (or continue where applicable) an assurance engagement only if the assurance practitioner is satisfied that those persons who are to perform the assurance engagement collectively possess the necessary professional competencies.**

19 An assurance practitioner may be requested to perform assurance engagements on a wide range of subject matters. Some subject matters may need specialised skills and knowledge beyond those ordinarily possessed by an individual assurance practitioner (see paragraphs 47-55).

### **Agreeing on the Terms of the Assurance Engagement**

**20 The assurance practitioner shall agree on the terms of the assurance engagement with the engaging party, which shall be recorded in writing by the assurance practitioner and forwarded to the engaging party. When the assurance engagement is undertaken pursuant to legislation, the minimum applicable assurance engagement terms shall be those contained in the legislation.**

21 To avoid misunderstandings, under paragraph 20 of this ASAE, the agreed terms of the assurance engagement need to be recorded in an assurance engagement letter or other suitable form of contract. If the engaging party is not the responsible party, the nature and content of an assurance engagement letter or contract may vary. The existence of a legislative mandate may satisfy the requirement to agree on the terms of the assurance engagement. Even in those

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situations an assurance engagement letter may be useful for both the assurance practitioner and engaging party.<sup>5</sup>

- 22 **An assurance practitioner shall consider the appropriateness of a request, made before the completion of an assurance engagement, to change the assurance engagement to a non-assurance engagement or from a reasonable assurance engagement to a limited assurance engagement, and shall not agree to a change without reasonable justification.**
- 23 **When the terms of an assurance engagement are changed, the assurance practitioner shall agree on the new terms with the engaging party and confirm them in writing.**
- 24 A change in circumstances that affects the intended users' needs, or a misunderstanding concerning the nature of the assurance engagement, ordinarily will justify a request for a change in the assurance engagement. If such a change is made, the assurance practitioner does not disregard evidence that was obtained prior to the change.

### **Planning and Performing the Assurance Engagement**

- 25 **The assurance practitioner shall plan an assurance engagement so that it will be performed effectively.**
- 26 Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the assurance engagement, and an assurance engagement plan, consisting of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be performed and the reasons for selecting them.<sup>6</sup> Ordinarily, adequate planning:
- Helps to devote appropriate attention to important areas of the assurance engagement, identify potential problems on a timely basis and properly organise and manage the assurance engagement in order for it to be performed in an effective and efficient manner.

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<sup>5</sup> An illustrative example of an engagement letter relevant to an audit engagement is contained in Auditing Standard ASA 210 *Terms of Audit Engagements*, and may be helpful in determining terms of engagement applicable to an assurance engagement.

<sup>6</sup> The planning procedures relevant to an audit engagement are contained in Auditing Standard ASA 300 *Planning an Audit of a Financial Report*, and may be helpful in determining planning procedures applicable to an assurance engagement.

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- Assists the assurance practitioner to properly assign work to assurance engagement team members, and facilitates their direction and supervision and the review of their work.
- Assists, where applicable, the coordination of work done by other assurance practitioners and experts.

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

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

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

**28 The assurance practitioner shall plan and perform an assurance engagement with an attitude of professional scepticism recognising that circumstances may exist that cause the subject matter information to be materially misstated.**

29 An attitude of professional scepticism means the assurance practitioner makes a critical assessment, with a questioning mind, of

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the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents and responses to enquiries and other information obtained from management and those charged with governance.

**30 The assurance practitioner shall obtain an understanding of the subject matter and other assurance engagement circumstances, sufficient to identify and assess the risks of the subject matter information being materially misstated, and sufficient to design and perform further evidence-gathering procedures.**

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

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

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

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*Assessing the Appropriateness of the Subject Matter*

**33 The assurance practitioner shall assess the appropriateness of the subject matter.**

34 An appropriate subject matter has the following characteristics:

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

The assurance practitioner also ordinarily identifies those characteristics of the subject matter that are particularly relevant to the intended users, which are to be described in the assurance report. An assurance practitioner does not accept an assurance engagement unless the assurance practitioner's preliminary knowledge of the assurance engagement circumstances indicates that the subject matter is appropriate. After accepting the assurance engagement, however, if the assurance practitioner concludes that the subject matter is not appropriate, under paragraph 83 (c) of this ASAE, the assurance practitioner needs to express a qualified or adverse conclusion or a disclaimer of conclusion. In some cases the assurance practitioner considers withdrawing from the assurance engagement.

*Assessing the Suitability of the Criteria*

**35 The assurance practitioner shall assess the suitability of the criteria to evaluate or measure the subject matter.**

36 Suitable criteria have the following characteristics:

- Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users.
- Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the assurance engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure.

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- Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified assurance practitioners.
  - Neutrality: neutral criteria contribute to conclusions that are free from bias.
  - Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.
- 37 As indicated in paragraph 16 of this ASAE, an assurance practitioner does not accept an assurance engagement unless the assurance practitioner's preliminary knowledge of the assurance engagement circumstances indicates that the criteria to be used are suitable. After accepting the assurance engagement, however, if the assurance practitioner concludes that the criteria are not suitable, under paragraph 83 (c) of this ASAE, the assurance practitioner needs to express a qualified or adverse conclusion or a disclaimer of conclusion. Under paragraph 83 (c) of this ASAE, in some cases the assurance practitioner needs to consider withdrawing from the assurance engagement.
- 38 Criteria can either be established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. When established criteria exist for a subject matter, specific users may agree to other criteria for their specific purposes. For example, various frameworks can be used as established criteria for evaluating the effectiveness of internal control. Specific users may, however, develop a more detailed set of criteria that meet their specific needs in relation to, for example, prudential supervision. In such cases, the assurance report:
- (a) notes, when it is relevant to the circumstances of the assurance engagement, that the criteria are not embodied in laws or regulations, or issued by authorised or recognised bodies of experts that follow a transparent due process; and
  - (b) states that it is only for the use of the specific users and for their purposes.
- 39 For some subject matters, it is likely that no established criteria exist. In those cases, criteria are specifically developed. Ordinarily, the assurance practitioner:

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- Considers whether specifically developed criteria result in an assurance report that is misleading to the intended users.
- Attempts to have the intended users or the engaging party acknowledge that specifically developed criteria are suitable for the intended users' purposes.
- Considers how the absence of such an acknowledgement affects what is to be done to assess the suitability of the identified criteria, and the information provided about the criteria in the assurance report.

*Materiality and Assurance Engagement Risk*

**40 The assurance practitioner shall consider materiality and assurance engagement risk when planning and performing an assurance engagement.**

41 Under paragraph 40 of this ASAE, the assurance practitioner needs to consider materiality when determining the nature, timing and extent of evidence-gathering procedures, and when evaluating whether the subject matter information is free of misstatement. In considering materiality the assurance practitioner needs to understand and assess what factors might influence the decisions of the intended users. For example, when the identified criteria allow for variations in the presentation of the subject matter information, the assurance practitioner ordinarily considers how the adopted presentation might influence the decisions of the intended users.

42 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 assurance engagement are matters for the assurance practitioner's judgement.

**43 The assurance practitioner shall reduce assurance engagement risk to an acceptable level in the circumstances of the assurance engagement.**

44 In a reasonable assurance engagement, under paragraph 43 of this ASAE, the assurance practitioner needs to reduce assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement to obtain reasonable assurance as the basis for a positive form of expression of the assurance practitioner's conclusion. The level of assurance engagement risk is higher in a

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- limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures.
- 45 In a limited assurance engagement, the combination of the nature, timing, and extent of evidence-gathering procedures is at least sufficient for the assurance practitioner to obtain a meaningful level of assurance as the basis for a negative form of expression of the assurance practitioner's conclusion. To be meaningful, the level of assurance obtained is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.
- 46 In general, assurance engagement risk comprises inherent risk, control risk and detection risk. The degree to which the assurance practitioner's consideration of these components is reflected in the assurance engagement evidence gathering process is affected by the assurance engagement circumstances, in particular the nature of the subject matter and whether a reasonable assurance or a limited assurance engagement is being performed.

### **Using the Work of an Expert**

- 47 **When the work of an expert is used in the collection and evaluation of evidence, the assurance practitioner and the expert shall, on a combined basis, possess adequate skill and knowledge regarding the subject matter and the criteria for the assurance practitioner to determine that sufficient appropriate evidence has been obtained.**
- 48 The subject matter and related criteria of some assurance engagements may include aspects requiring specialised knowledge and skills in the collection and evaluation of evidence.<sup>7</sup> In these situations, the assurance practitioner may decide to use the work of persons from other professional disciplines, referred to as experts, who have the required knowledge and skills. This ASAE does not provide explanatory guidance with respect to using the work of an expert for assurance engagements where there is joint responsibility and reporting by an assurance practitioner and one or more experts.
- 49 Due care is a required professional quality for all assurance practitioners and experts, involved in an assurance engagement. Persons involved in assurance engagements will have different

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<sup>7</sup> Using the work of experts as evidence in the context of an audit engagement is contained in Auditing Standard ASA 620 *Using the Work of an Expert*, and may be helpful in using the work of experts as evidence in an assurance engagement.

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- responsibilities assigned to them. The extent of proficiency needed for performing those assurance engagements will vary with the nature of their responsibilities. While experts do not need to have the same proficiency as the assurance practitioner in performing all aspects of an assurance engagement, under paragraph 47 of this ASAE, the assurance practitioner needs to determine that the experts have a sufficient understanding of the ASAEs to enable them to relate the work assigned to them to the assurance engagement objective.
- 50 Under paragraph 12 of this ASAE, the assurance practitioner needs to adopt quality control procedures that address the responsibility of each person performing the assurance engagement, including the work of any experts who are not assurance practitioners, to ensure compliance with this ASAE and other relevant ASAEs in the context of their responsibilities.
- 51 The assurance practitioner shall be involved in the assurance engagement and understand the work for which an expert is used, to an extent that is sufficient to enable the assurance practitioner to accept responsibility for the conclusion on the subject matter information.**
- 52 Under paragraph 51 of this ASAE, the assurance practitioner needs to consider the extent to which it is reasonable to use the work of an expert in forming the assurance practitioner's conclusion.
- 53 The assurance practitioner is not expected to possess the same specialised knowledge and skills as the expert. The assurance practitioner has however, sufficient skill and knowledge to:
- (a) define the objectives of the assigned work and how this work relates to the objective of the assurance engagement;
  - (b) consider the reasonableness of the assumptions, methods and source data used by the expert; and
  - (c) consider the reasonableness of the expert's findings in relation to the assurance engagement circumstances and the assurance practitioner's conclusion.
- 54 The assurance practitioner shall obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the assurance engagement.**

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- 55 In assessing the sufficiency and appropriateness of the evidence provided by the expert, ordinarily the assurance practitioner evaluates:
- The professional competence, including experience, and objectivity of the expert.
  - The reasonableness of the assumptions, methods and source data used by the expert.
  - The reasonableness and significance of the expert's findings in relation to the circumstances of the assurance engagement and the assurance practitioner's conclusion.

**Obtaining Evidence**

- 56 **The assurance practitioner shall obtain sufficient appropriate evidence on which to base the conclusion.**
- 57 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.<sup>8</sup> The assurance practitioner ordinarily considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative. The assurance practitioner uses professional judgement and exercises professional scepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report.
- 58 An assurance engagement rarely involves the authentication of documentation, nor is the assurance practitioner trained as or expected to be an expert in such authentication. However, under paragraph 56 of this ASAE, the assurance practitioner needs to consider the reliability of the information to be used as evidence, for example photocopies, facsimiles, filmed, digitised or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.
- 59 Sufficient appropriate evidence in a reasonable assurance engagement is obtained as part of an iterative, systematic assurance engagement process involving:

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<sup>8</sup> The concepts and discussions on evidence relevant to an audit engagement are contained in Auditing Standard ASA 500 *Audit Evidence*, and may be helpful in determining the evidence applicable to an assurance engagement.

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- (a) obtaining an understanding of the subject matter and other assurance engagement circumstances which, depending on the subject matter, includes obtaining an understanding of internal control;
- (b) based on that understanding, assessing the risks that the subject matter information may be materially misstated;
- (c) responding to assessed risks, including developing overall responses, and determining the nature, timing and extent of further evidence-gathering procedures;
- (d) performing further evidence-gathering procedures clearly linked to the identified risks, using a combination of inspection, observation, confirmation, recalculation, re-performance, analytical procedures and enquiry. Such further evidence-gathering procedures involve substantive procedures, including obtaining corroborating information from sources independent of the entity, and depending on the nature of the subject matter, tests of the operating effectiveness of controls; and
- (e) evaluating the sufficiency and appropriateness of evidence.
- 60 Reasonable assurance is less than absolute assurance. Reducing assurance engagement risk to zero is very rarely attainable or cost beneficial as a result of factors such as the following:
- The use of selective testing.
  - The inherent limitations of internal control.
  - The fact that much of the evidence available to the assurance practitioner is persuasive rather than conclusive.
  - The use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence.
  - In some cases, the characteristics of the subject matter.
- 61 Both reasonable assurance and limited assurance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic assurance engagement process that includes obtaining an understanding of the subject matter and other assurance engagement circumstances.

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- 62 The nature, timing and extent of evidence-gathering procedures for gathering sufficient appropriate evidence in a limited assurance engagement are, however, deliberately limited relative to a reasonable assurance engagement. For some subject matters, there may be specific ASAEs to provide guidance on procedures for gathering sufficient appropriate evidence for a limited assurance engagement. In the absence of a specific ASAE, the procedures for gathering sufficient appropriate evidence will vary with the circumstances of the assurance engagement, in particular the subject matter, and the needs of the intended users and the engaging party, including relevant time and cost constraints.
- 63 For both reasonable assurance and limited assurance engagements, if the assurance practitioner becomes aware of a matter that leads the assurance practitioner to question whether a material revision needs to be made to the subject matter information, the assurance practitioner pursues the matter by performing other evidence-gathering procedures sufficient to enable the assurance practitioner to report.

*Representations by the Responsible Party*

- 64 The assurance practitioner shall endeavour to obtain written representations from the responsible party, as appropriate.**
- 65 Written confirmation of oral representations reduces the possibility of misunderstandings between the assurance practitioner and the responsible party.<sup>9</sup> In particular, the assurance practitioner ordinarily requests from the responsible party a written representation that evaluates or measures the subject matter against the identified criteria, whether or not it is to be made available as an assertion to the intended users. Having no written representation may result in a qualified conclusion or a disclaimer of conclusion on the basis of a limitation on the scope of the assurance engagement. The assurance practitioner may also include a restriction on the use of the assurance report.
- 66 During an assurance engagement, the responsible party may make representations to the assurance practitioner, either unsolicited or in response to specific enquiries. When such representations relate to matters that are material to the subject matter's evaluation or measurement, the assurance practitioner ordinarily:

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<sup>9</sup> Matters for consideration and an illustrative example of a representation letter relevant to an audit engagement are contained in Auditing Standard ASA 580 *Management Representations*, and may be helpful in determining representations applicable to an assurance engagement.

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- Evaluates their reasonableness and consistency with other evidence obtained, including other representations.
  - Considers whether those making the representations can be expected to be well informed on the particular matters.
  - Obtains appropriate corroborative evidence.<sup>10</sup>
- 67 Representations by the responsible party cannot replace other evidence the assurance practitioner could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation or measurement of the subject matter, when such evidence would ordinarily be available, constitutes a limitation on the scope of the assurance engagement, even if a representation from the responsible party has been received on the matter.

### **Considering Subsequent Events**

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

### **Documentation**

- 70 **The assurance practitioner shall prepare, on a timely basis, documentation that is sufficient and appropriate to provide:**
- (a) **a basis for the assurance practitioner's conclusion; and**
  - (b) **evidence that the assurance engagement was performed in accordance with ASAEs.**

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<sup>10</sup> Guidance on corroborative evidence relevant in investigating unusual fluctuations in an audit engagement is contained in Auditing Standard ASA 520 *Analytical Procedures*, and may be helpful in determining appropriate corroborative evidence in an assurance engagement.

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- 71 Documentation includes a record of the assurance practitioner's reasoning on all significant matters that require the exercise of judgement, and related conclusions.<sup>11</sup> The existence of difficult questions of principle or judgement, calls for the documentation to include the relevant facts that were known by the assurance practitioner at the time the conclusion was reached.
- 72 In applying professional judgement to assessing the extent of documentation to be prepared and retained, the assurance practitioner ordinarily considers what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken to another experienced assurance practitioner who has no previous experience with the assurance engagement. It is, however, neither necessary nor practicable to document every matter the assurance practitioner considers during the assurance engagement.

**Preparing the Assurance Report**

- 73 **The assurance practitioner shall conclude whether sufficient appropriate evidence has been obtained to support the conclusion expressed in the assurance report.**
- 74 In developing the conclusion, the assurance practitioner ordinarily considers all relevant evidence obtained, regardless of whether it appears to corroborate or to contradict the subject matter information.
- 75 **The assurance report shall be in writing and shall contain a clear expression of the assurance practitioner's conclusion about the subject matter information.**
- 76 Oral and other forms of expressing conclusions can be misunderstood without the support of a written report. For this reason, the assurance practitioner does not report orally or by use of symbols without also providing a definitive written assurance report that is readily available whenever the oral report is provided or the symbol is used. For example, a symbol could be hyperlinked to a written assurance report on the Internet.
- 77 This ASAE does not require a standardised format for reporting on all assurance engagements. Instead it identifies in paragraph 78 the

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<sup>11</sup> The nature, form content and extent of documentation relevant to an audit engagement are contained in Auditing Standard ASA 230 *Audit Documentation*, and may be helpful in determining the nature, form content and extent of documentation applicable to an assurance engagement.

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basic elements the assurance report is to include. Assurance reports are tailored to the specific assurance engagement circumstances. The assurance practitioner chooses a short form or long form style of reporting to facilitate effective communication to the intended users. Short-form reports ordinarily include only the basic elements. Long form reports often describe in detail the terms of the assurance engagement, the criteria being used, findings relating to particular aspects of the assurance engagement and, in some cases, recommendations, as well as the basic elements. Any findings and recommendations are clearly separated from the assurance practitioner's conclusion on the subject matter information, and the wording used in presenting them makes it clear they are not intended to affect the assurance practitioner's conclusion. The assurance practitioner may use headings, paragraph numbers, typographical devices, for example the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report.

*Assurance Report Content*

**78 The assurance report shall include the following basic elements:**

- (a) a title that clearly indicates the report is an independent assurance report;**
- (b) an addressee;**
- (c) an identification and description of the subject matter information and, when appropriate, the subject matter;**
- (d) identification of the criteria;**
- (e) where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria;**
- (f) when the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose;**
- (g) a statement to identify the responsible party and to describe the responsible party's and the assurance practitioner's responsibilities;**

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- (h) **a statement that the assurance engagement was performed in accordance with ASAEs and the level of assurance provided;**
- (i) **a summary of the work performed;**
- (j) **the assurance practitioner's conclusion:**
  - (i) **where appropriate, the conclusion shall inform the intended users of the context in which the assurance practitioner's conclusion is to be read;**
  - (ii) **in a reasonable assurance engagement, the conclusion shall be expressed in the positive form;**
  - (iii) **in a limited assurance engagement, the conclusion shall be expressed in the negative form; and**
  - (iv) **where the assurance practitioner expresses a conclusion that is other than unqualified, the assurance report shall contain a clear description of all the reasons;**
- (k) **the assurance report date; and**
- (l) **the name of the firm or the assurance practitioner, and a specific location, which ordinarily is the city where the assurance practitioner maintains the office that has responsibility for the assurance engagement.**

79 The basic elements of an assurance report under paragraph 78 of this ASAE may assist the assurance practitioner as follows:

- (a) the title described at paragraph 78(a) of this ASAE, indicates whether the report is an independent assurance report.<sup>12</sup> An appropriate title helps to identify the nature of the assurance report, and to distinguish it from reports

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<sup>12</sup> If the assurance practitioner is not in public practice, for example an internal auditor, and if the assurance practitioner or other members of the assurance team and, when applicable, the assurance practitioner'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 assurance client are prominently disclosed in the assurance report. Also, that report does not include the word "independent" in its title, and the purpose and users of the report are restricted.

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- issued by others, such as those who do not have to comply with the same ethical requirements as the assurance practitioner;
- (b) an addressee identifies the party or parties to whom the assurance report is directed. Whenever practical, the assurance report is addressed to all the intended users, but in some cases there may be other intended users;
- (c) identification and description of the subject matter information and, when appropriate, the subject matter may for example include:
- (i) the point in time or period of time to which the evaluation or measurement of the subject matter relates;
  - (ii) where applicable, the name of the entity or component of the entity to which the subject matter relates; and
  - (iii) an explanation of those characteristics of the subject matter or the subject matter information of which the intended users ought to be aware, and how such characteristics may influence the precision of the evaluation or measurement of the subject matter against the identified criteria, or the persuasiveness of available evidence. For example:
    - the degree to which the subject matter information is qualitative versus quantitative, objective versus subjective, or historical versus prospective; and
    - changes in the subject matter or other assurance engagement circumstances that affect the comparability of the subject matter information from one period to the next. When the assurance practitioner's conclusion is worded in terms of the responsible party's assertion, that assertion is appended to the assurance report, reproduced in the assurance report or referenced therein to a source that is available to the intended users;

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- (d) the assurance report identifies the criteria against which the subject matter was evaluated or measured so the intended users can understand the basis for the assurance practitioner's conclusion. The assurance report may include the criteria, or refer to them if they are contained in an assertion prepared by the responsible party that is available to the intended users or if they are otherwise available from a readily accessible source. The assurance practitioner considers whether it is relevant to the circumstances, to disclose:
  - (i) the source of the criteria, and whether or not the criteria are embodied in laws or regulations, or issued by authorised or recognised bodies of experts that follow a transparent due process, that is, whether they are established criteria in the context of the subject matter (and if they are not, a description of why they are considered suitable);
  - (ii) measurement methods used when the criteria allow for choice between a number of methods;
  - (iii) any significant interpretations made in applying the criteria in the assurance engagement circumstances; and
  - (iv) whether there have been any changes in the measurement methods used;
- (e) in terms of the appropriateness of a description of any significant, inherent limitation, in some cases inherent limitations can be expected to be well understood by readers of an assurance report, while in other cases it may be appropriate to make explicit reference in the assurance report. For example, in an assurance report related to the effectiveness of internal control, it may be appropriate to note that the historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate;
- (f) whenever the assurance report is intended only for specific intended users or a specific purpose, under paragraph 78(f) of this ASAE, the assurance practitioner needs to consider

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stating this fact in the assurance report.<sup>13</sup> This provides a caution to readers that the assurance report is restricted to specific users or for specific purposes;

- (g) the statement described at paragraph 78(g) of this ASAE informs the intended users that the responsible party is responsible for the subject matter in the case of a direct reporting assurance engagement, or the subject matter information in the case of an assertion-based assurance engagement, and that the assurance practitioner's role is to independently express a conclusion about the subject matter information;
- (h) where there is a subject matter specific ASAE, that ASAE may require that the assurance report refer specifically to it;
- (i) a summary of the work performed will help the intended users understand the nature of the assurance conveyed by the assurance report.<sup>14</sup> Where no specific ASAE provides guidance on evidence-gathering procedures for a particular subject matter, the summary might include a more detailed description of the work performed. Because in a limited assurance engagement an appreciation of the nature, timing, and extent of evidence-gathering procedures performed is essential to understanding the assurance conveyed by a conclusion expressed in the negative form, the summary of the work performed:
  - (i) is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing, and extent of evidence-gathering procedures. It may be appropriate to indicate evidence-gathering procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement; and
  - (ii) states that the evidence-gathering procedures are more limited than for a reasonable assurance

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<sup>13</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 legal responsibility is owed by the assurance practitioner in relation to that reader or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

<sup>14</sup> Auditing Standards ASA 700 *The Auditor's Report on a General Purpose Financial Report* and ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, may provide helpful guidance in relation to the appropriate type of summary.

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- engagement, and that therefore less assurance is obtained than in a reasonable assurance engagement;
- (j) separate conclusions may be provided on each aspect, where the subject matter information is made up of a number of aspects. While not all such conclusions need to relate to the same level of evidence-gathering procedures, each conclusion is expressed in the form that is appropriate to either a reasonable assurance or a limited assurance engagement:
- (i) the assurance practitioner's conclusion may, for example, include wording such as: "This conclusion has been formed on the basis of, and is subject to the inherent limitations outlined elsewhere in this independent assurance report." This would be appropriate, for example, when the report includes an explanation of particular characteristics of the subject matter of which the intended users ought to be aware;
- (ii) an example of a positive conclusion is: "In our opinion internal control is effective, in all material respects, based on *XYZ criteria*" or "In our opinion *the responsible party's* assertion that internal control is effective, in all material respects, based on *XYZ criteria*, is fairly stated"; and
- (iii) an example of a negative conclusion is: "Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control is not effective, in all material respects, based on *XYZ criteria*" or "Based on our work described in this report, nothing has come to our attention that causes us to believe that *the responsible party's* assertion that internal control is effective, in all material respects, based on *XYZ criteria*, is not fairly stated";
- (k) the assurance report date informs the intended users that the assurance practitioner has considered the effect on the subject matter information and on the assurance report of events that occurred up to that date; and

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- (l) the name and location of the assurance practitioner informs the intended users of the individual or firm assuming responsibility for the assurance engagement.

80 The assurance practitioner may expand the assurance report to include other information and explanations that are not intended to affect the assurance practitioner's conclusion. Examples include:

- details of the qualifications and experience of the assurance practitioner and others involved with the assurance engagement;
- disclosure of materiality levels;
- findings relating to particular aspects of the assurance engagement; and
- recommendations.

Whether to include any such information depends on its significance to the needs of the intended users. Additional information is clearly separated from the assurance practitioner's conclusion and worded in such a manner so as not to affect that conclusion.

*Modifications to the Assurance Report*

81 Modifications<sup>15</sup> to the assurance report relate to circumstances:

- (a) that require an emphasis of matter paragraph; or
- (b) when the assurance practitioner is unable to express an unqualified conclusion and an assurance report is issued with either:
- (i) a qualified conclusion; or
  - (ii) an adverse conclusion; or
  - (iii) a disclaimer of conclusion.

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<sup>15</sup> Auditing Standard ASA 701 *Modifications to the Auditor's Report* may be helpful in considering modifications to the assurance report.

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*Emphasis of Matter Paragraphs, Qualified Conclusions, Adverse*  
*Conclusions and Disclaimers of Conclusion*

- 82** An assurance practitioner shall modify the assurance report by adding an emphasis of matter paragraph to highlight a matter that is fundamental to the users' understanding of the subject matter information. The addition of an emphasis of matter paragraph does not affect the assurance practitioner's conclusion.
- 83** The assurance practitioner shall not express an unqualified conclusion when the following circumstances exist and, in the assurance practitioner's judgement, the effect of the matter is or may be material:
- (a)** there is a limitation on the scope of the assurance practitioner's work, that is, circumstances prevent, or the responsible party or the engaging party imposes a restriction that prevents, the assurance practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level. The assurance practitioner shall express a qualified conclusion or a disclaimer of conclusion;
  - (b)** in those cases where:
    - (i)** the assurance practitioner's conclusion is worded in terms of the responsible party's assertion, and that assertion is not fairly stated, in all material respects; or
    - (ii)** the assurance practitioner's conclusion is worded directly in terms of the subject matter and the criteria, and the subject matter information is materially misstated,the assurance practitioner shall express a qualified conclusion or adverse conclusion; or
  - (c)** when it is discovered, after the assurance engagement has been accepted, that the criteria are unsuitable or the subject matter is not appropriate for an assurance engagement. The assurance practitioner shall express:
    - (i)** a qualified conclusion or adverse conclusion when the unsuitable criteria or inappropriate

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subject matter is likely to mislead the intended users; or

- (ii) a qualified conclusion or a disclaimer of conclusion in other cases.

**In some cases the assurance practitioner shall consider withdrawing from the assurance engagement.**

**84 The assurance practitioner shall express a qualified conclusion when the effect of a matter is not so material or pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion is expressed as being “except for” the effects of the matter to which the qualification relates.**

85 In those cases where the assurance practitioner’s unqualified conclusion would be worded in terms of the responsible party’s assertion, and that assertion has identified and properly described that the subject matter information is materially misstated, under paragraph 84 of this ASAE, the assurance practitioner needs to either:

- (a) express a qualified or adverse conclusion<sup>16</sup> worded directly in terms of the subject matter and the criteria; or
- (b) if specifically required by the terms of the assurance engagement to word the conclusion in terms of the responsible party’s assertion, express an unqualified conclusion but use an emphasis of matter<sup>17</sup> paragraph to specifically refer to it in the assurance report.

### **Other Reporting Responsibilities**

**86 The assurance practitioner shall consider other reporting responsibilities, including the appropriateness of communicating relevant matters of governance interest arising from the assurance engagement with those charged with governance.**

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<sup>16</sup> In those direct reporting assurance engagements where the subject matter information is presented only in the assurance practitioner’s conclusion, and the assurance practitioner concludes that the subject matter does not, in all material respects, conform with the criteria, for example: “In our opinion, except for [...], internal control is effective, in all material respects, based on XYZ criteria,” such a conclusion would also be considered to be qualified (or adverse as appropriate).

<sup>17</sup> Example emphasis of matter paragraphs relevant to an audit engagement are contained in ASA 701 and may be helpful guidance in developing emphasis of matter paragraphs applicable to an assurance engagement.

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- 87 In this ASAE, “governance” describes the role of persons entrusted with the supervision, control and direction of a responsible party.<sup>18</sup> Those charged with governance ordinarily are accountable for ensuring that an entity achieves its objectives and for reporting to interested parties. If the engaging party is different from the responsible party it may not be appropriate to communicate directly with the responsible party or those charged with governance over the responsible party.
- 88 In this ASAE, “relevant matters of governance interest” are those that arise from the assurance engagement and, in the assurance practitioner’s opinion, are both important and relevant to those charged with governance. Relevant matters of governance interest include only those matters that have come to the attention of the assurance practitioner while performing the assurance engagement. If the terms of the assurance engagement do not specifically require it, the assurance practitioner is not required to design procedures for the specific purpose of identifying matters of governance interest.

**Conformity with International Standards on Assurance Engagements**

- 89 Except as noted below, this ASAE conforms with International Standard on Assurance Engagements ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main differences between this ASAE and ISAE 3000 are:
- This ASAE contains the following application paragraph that is not contained in ISAE 3000:
    - ◆ this Standard on Assurance Engagements (ASAE) applies to assurance engagements other than audits

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<sup>18</sup> Principles of corporate governance have generally been developed by various countries as a point of reference for the establishment of good corporate behaviour. Such principles generally focus on publicly listed companies; however, they may also serve to improve governance in other forms of entities. As board and governance structures and practices vary from country to country, there is no single model of good corporate governance. A common principle is that the entity has in place a governance structure which enables the board to exercise objective oversight over the business and management of the entity including financial reporting. Internationally, it may be appropriate to refer to the *Principles of Corporate Governance*, as issued from time to time, by the Organisation for Economic Co-operation and Development (OECD). In Australia, it may be appropriate to refer to the *Principles of Good Corporate Governance and Best Practice Recommendations*, as issued from time to time, by the Corporate Governance Council of the Australian Securities Exchange Ltd.

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or reviews of historical financial information (paragraph 1).

- In this ASAE, the term ‘practitioner’ has been replaced with ‘assurance practitioner’ to expand the application of the ASAE by other professionals. Assurance practitioner has been defined as follows:
  - ◆ for the purpose of this ASAE, an “assurance practitioner” means a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services (paragraph 4).
- In this ASAE, the definition of reasonable assurance has been expanded as follows:
  - ◆ reasonable assurance means a high, but not absolute, level of assurance (paragraph 5(a)).
- This ASAE contains the following mandatory requirements that are not contained in ISAE 3000:
  - ◆ where in rare and exceptional circumstances, factors outside the assurance practitioner’s control prevent the assurance practitioner from complying with a relevant mandatory requirement in this ASAE, the assurance practitioner shall:
    - if possible, perform appropriate alternative evidence-gathering procedures; and
    - document in the working papers:
      - ◇ the circumstances surrounding the inability to comply;
      - ◇ the reasons for the inability to comply; and
      - ◇ justification of how alternative evidence-gathering procedures achieve the objectives of the mandatory requirement.

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When the assurance practitioner is unable to perform appropriate alternative evidence-gathering procedures, the assurance practitioner shall consider the implications for the assurance practitioner's report (paragraph 8);

- ◆ the assurance practitioner shall comply with the fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour (paragraph 9);
- ◆ the assurance practitioner shall implement procedures to address the following elements of a quality control system that apply to the individual assurance engagement:
  - leadership responsibilities for quality on the assurance engagement;
  - ethical requirements;
  - acceptance and continuance of client relationships and specific assurance engagements;
  - assignment of assurance engagement teams;
  - assurance engagement performance; and
  - monitoring (paragraph 12);
- ◆ the assurance practitioner shall accept (or continue where applicable) an assurance engagement only if, on the basis of a preliminary knowledge of the assurance engagement circumstances, nothing comes to the attention of the assurance practitioner to indicate that the requirements of the fundamental ethical principles or of the ASAEs will not be satisfied (paragraph 16);
- ◆ the assurance practitioner shall agree on the terms of the assurance engagement with the engaging party, which shall be recorded in writing by the assurance practitioner and forwarded to the engaging party. When the assurance engagement

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is undertaken pursuant to legislation, the minimum applicable assurance engagement terms shall be those contained in the legislation (paragraph 20);

- ◆ when the terms of an assurance engagement are changed, the assurance practitioner shall agree on the new terms with the engaging party and confirm them in writing (paragraph 23);
- ◆ the assurance practitioner shall prepare, on a timely basis, documentation that is sufficient and appropriate to provide:
  - a basis for the assurance practitioner's conclusion; and
  - evidence that the assurance engagement was performed in accordance with ASAEs (paragraph 70);
- ◆ an assurance practitioner shall modify the assurance report by adding an emphasis of matter paragraph to highlight a matter that is fundamental to the users' understanding of the subject matter information. The addition of an emphasis of matter paragraph does not affect the assurance practitioner's conclusion (paragraph 82); and
- ◆ in some cases the assurance practitioner shall consider withdrawing from the assurance engagement (paragraph 83 (c)).

- References to paragraphs in the *Framework for Assurance Engagements* have been replaced with the following explanatory guidance paragraphs:

- ◆ preliminary knowledge of the assurance engagement circumstances prior to acceptance of an assurance engagement (paragraph 17);
- ◆ characteristics of an appropriate subject matter has the following characteristics (paragraph 34); and
- ◆ characteristics of suitable criteria (paragraph 36).

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- This ASAE contains enhanced explanatory guidance on the level of documentation at paragraph 72 and explanatory guidance on modifications at paragraph 81.
- This ASAE contains footnote references to Auditing Standards (ASAs) that provide helpful guidance to assurance practitioners (paragraphs 13, 21, 26, 48, 57, 65, 66, 71, 79, 81 and 85).
- ISAE 3000 includes a Public Sector Perspective section. This ASAE does not include a separate section on the public sector as it is sector neutral.

Compliance with this Standard on Assurance Engagements enables compliance with ISAE 3000.