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Framework for Assurance Engagements

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PREFACE

Reasons for Issuing the *Framework for Assurance Engagements*

The AUASB makes Auditing Standards (ASAs) under section 336 of the *Corporations Act 2001* and formulates auditing and assurance standards for other purposes.

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*, as from 1 July 2004.

Under 227B of that Act, the AUASB may formulate guidance on auditing and assurance matters. Accordingly, AUASB issues the *Framework for Assurance Engagements* (Framework) under its powers described in section 227B of that Act.

The Framework does not itself establish mandatory requirements for undertaking and reporting on audit, review or other assurance engagements. Whilst it is not a Standard, it provides a framework for the development of AUASB Standards.

Main Features

The Framework defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which ASAs, Standards on Review Engagements (ASREs) and Standards on Assurance Engagements (ASAEs) apply.

The Framework provides a frame of reference for:

1. Assurance practitioners.
2. Others involved with assurance engagements, including the intended users of an assurance report and the responsible party.
3. The AUASB in its development of ASAs, ASREs, ASAEs and other pronouncements.

Issuance Date

This Framework is issued on 27 June 2007 by the AUASB and replaces AUS 108 Framework for Assurance Engagements previously issued in June 2004 .

Main changes from existing AUS 108 Framework for Assurance Engagements (June 2004)

The main differences between this *Framework for Assurance Engagements* and the Auditing Standard issued by the Auditing & Assurance Standards Board of the Australian Accounting Research Foundation that it supersedes, AUS 108 *Framework for Assurance Engagements* (June 2004), is that in this pronouncement:

1. Terminology and references have been updated for AUASB pronouncements and other Australian professional pronouncements.
2. There is a definition of the term “assurance practitioner” which means a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services (paragraph 2).
3. The term “assurance practitioner” in this pronouncement has replaced the terms “practitioner” and “professional accountant”.
4. The broader fundamental ethical principles apply to all assurance engagements rather than only those included in the applicable code of conduct of a professional accounting body (paragraph 6).
5. The following elements of a quality control system apply to all assurance engagements: 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 7).
6. Reasonable assurance means a high, but not absolute, level of assurance (paragraph 12(a)).
7. There is no separate section on Public Sector Perspective as this pronouncement is sector neutral.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates the *Framework for Assurance Engagements* as set out in paragraphs 1 to 65 and Appendix 1, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

Dated 27 June 2007

M H Kelsall
Chairman - AUASB

Framework for Assurance Engagements

Introduction

- 1 This *Framework for Assurance Engagements* (Framework) defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which Auditing Standards (ASAs), Standards on Review Engagements (ASREs) and Standards on Assurance Engagements (ASAEs) apply. It provides a frame of reference for:
 - (a) assurance practitioners;
 - (b) others involved with assurance engagements, including the intended users of an assurance report and the responsible party; and
 - (c) the Auditing and Assurance Standards Board in its development of ASAs, ASREs, ASAEs and other pronouncements.
- 2 For the purposes of this Framework, 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.
- 3 This Framework does not itself establish standards or provide mandatory requirements for the performance of assurance engagements. ASAs, ASREs and ASAEs contain mandatory requirements and explanatory guidance, consistent with the concepts in this Framework, for the performance of assurance engagements.
- 4 The following is an overview of this Framework:
 - *Introduction:* This Framework deals with assurance engagements performed by assurance practitioners. It provides a frame of reference for assurance practitioners and others involved with assurance engagements, such as those engaging an assurance practitioner (the “engaging party”).

Framework for Assurance Engagements

- *Definition and Objective of an Assurance Engagement:* This section defines assurance engagements and identifies the objectives of the two types of assurance engagements an assurance practitioner may perform under this Framework. This Framework calls these two types reasonable assurance engagements and limited assurance engagements.¹
- *Scope of the Framework:* This section distinguishes assurance engagements from other engagements, such as consulting engagements.
- *Assurance Engagement Acceptance:* This section sets out characteristics that ought to be exhibited before an assurance practitioner can accept an assurance engagement.
- *Elements of an Assurance Engagement:* This section identifies and discusses five elements assurance engagements performed by an assurance practitioner exhibit: a three party relationship, a subject matter, criteria, evidence and an assurance report. It explains important distinctions between reasonable assurance engagements and limited assurance engagements (also outlined in Appendix 1). This section also discusses, for example, the significant variation in the subject matters of assurance engagements, the characteristics of suitable criteria, the role of risk and materiality in assurance engagements, and how conclusions are expressed in each of the two types of assurance engagement.
- *Inappropriate Use of the Assurance Practitioner's Name:* This section discusses implications of an assurance practitioner's association with a subject matter.

Ethical Principles and Quality Control Standards

- 5 In addition to this Framework and ASAs, ASREs and ASAEs, assurance practitioners who perform assurance engagements may be governed by:

¹ For assurance engagements regarding historical financial information in particular, reasonable assurance engagements are called audits, and limited assurance engagements are called reviews.

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- The applicable code of conduct of a professional accounting body², which establishes fundamental ethical principles for assurance practitioners.
 - The quality control requirements for firms issued by a professional accounting body, which establish standards and provide guidance on a firm's system of quality control³.
 - Any relevant legislative requirement.
- 6 The fundamental ethical principles that apply to all assurance engagements include:
- Integrity.
 - Objectivity.
 - Professional competence and due care.
 - Confidentiality.
 - Professional behaviour.
- The applicable code of conduct of a professional accounting body provides appropriate guidance on the application of those principles to assurance engagements.
- 7 The following elements of a quality control system apply to all assurance engagements:
- Leadership responsibilities for quality on the assurance engagement.
 - Ethical requirements.
 - Acceptance and continuance of client relationships and specific assurance engagements.

² 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.

³ The quality control requirements for firms is 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.

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- Assignment of assurance engagement teams.
- Assurance engagement performance.
- Monitoring.

The applicable code of conduct of a professional accounting body includes a conceptual approach to independence that takes into account, for each assurance engagement, threats to independence, accepted safeguards and the public interest. The code requires firms and members of assurance teams to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate these threats or to reduce them to an acceptable level by the application of safeguards.

Definition and Objective of an Assurance Engagement

- 8 “Assurance engagement” means an engagement in which an assurance 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 a subject matter against criteria.
- 9 The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. For example:
- The recognition, measurement, presentation and disclosure represented in the financial report (outcome) result from applying a financial reporting framework for recognition, measurement, presentation and disclosure, such as Australian Accounting Standards, (criteria) to an entity’s financial position, financial performance and cash flows (subject matter).
 - An assertion about the effectiveness of internal control (outcome) results from applying a framework for evaluating the effectiveness of internal control, such as COSO⁴ or CoCo,⁵ (criteria) to internal control, a process (subject matter).

⁴ “Internal Control – Integrated Framework” The Committee of Sponsoring Organizations of the Treadway Commission.

⁵ “Guidance on Assessing Control – The CoCo Principles” Criteria of Control Board, The Canadian Institute of Chartered Accountants.

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

- 10 Subject matter information can fail to be properly expressed in the context of the subject matter and the criteria, and can therefore be misstated, potentially to a material extent. This occurs when the subject matter information does not properly reflect the application of the criteria to the subject matter, for example, when an entity’s financial report does not give a true and fair view of (or present fairly, in all material respects) its financial position, financial performance and cash flows in accordance with Australian Accounting Standards, or when an entity’s assertion that its internal control is effective is not fairly stated, in all material respects, based on COSO or CoCo.
- 11 In some assurance engagements, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users. These assurance engagements are called “assertion-based assurance engagements.” In other assurance engagements, the assurance practitioner either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report. These assurance engagements are called “direct reporting assurance engagements.”
- 12 Under this Framework, there are two types of assurance engagement 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 circumstances of the assurance engagement⁶ as the basis for a positive form of expression of the assurance practitioner’s

⁶ Engagement circumstances include the terms of the assurance 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 assurance engagement.

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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.

Scope of the Framework

- 13 Not all engagements performed by assurance 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 Standards on Related Services (ASRSs), such as agreed-upon procedures engagements.
 - The preparation of tax returns where no conclusion conveying assurance is expressed or compilations of financial or other information.
 - Consulting (or advisory) engagements,⁷ such as management and tax consulting.
- 14 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.
- 15 The following engagements, which may meet the definition in paragraph 8, need not be performed in accordance with this Framework:

⁷ Consulting engagements employ an assurance practitioner'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 assurance practitioner and the client. Any service that meets the definition of an assurance engagement is not a consulting engagement but an assurance engagement.

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

Reports on Non-Assurance Engagements

- 16 An assurance 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, ASAs, ASREs or ASAEs.
 - 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 a subject matter against criteria.
- 17 The assurance practitioner and the responsible party may agree to apply the principles of this Framework to an assurance engagement when there are no intended users other than the responsible party but where all other requirements of the ASAs, ASREs or ASAEs are met. In such cases, the assurance practitioner's report includes a statement restricting the use of the report to the responsible party.

Assurance Engagement Acceptance

- 18 An assurance practitioner accepts an assurance engagement only where the assurance practitioner's 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 all of 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.
 - (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 (see paragraph 58), 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 (see paragraph 64).

Specific ASAs, ASREs or ASAEs may include additional requirements that need to be satisfied prior to accepting an assurance engagement.

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

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- 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 subject matter for which those criteria are suitable, and the assurance practitioner could perform an assurance engagement with respect to that aspect as a subject matter in its own right. In such cases, the assurance report makes it clear that it does not relate to the original subject matter in its entirety; or
 - (ii) Alternative criteria suitable for the original subject matter can be selected or developed.
 - The engaging party may request an engagement that is not an assurance engagement, such as a consulting or an agreed-upon procedures engagement.
- 20 Having accepted an assurance engagement, an assurance practitioner may not change that assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement without reasonable justification. A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the 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.

Elements of an Assurance Engagement

- 21 The following elements of an assurance engagement are discussed in this section:
- (a) a three party relationship involving an assurance practitioner, a responsible party, and intended users;
 - (b) an appropriate subject matter;
 - (c) suitable criteria;
 - (d) sufficient appropriate evidence; and
 - (e) a written assurance report in the form appropriate to a reasonable assurance engagement or a limited assurance engagement.

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Three Party Relationship

- 22 Assurance engagements involve three separate parties: an assurance practitioner, a responsible party and intended users.
- 23 The responsible party and the intended users may be from different entities or the same entity. As an example of the latter case, a governing board may seek assurance about information provided by management of that entity. The relationship between the responsible party and the intended users needs to be viewed within the context of a specific assurance engagement and may differ from more traditionally defined lines of responsibility. For example, an entity's senior management (an intended user) may engage an assurance practitioner to perform an assurance engagement on a particular aspect of the entity's activities that is the immediate responsibility of a lower level of management (the responsible party), but for which senior management is ultimately responsible.

Assurance Practitioner

- 24 The term "assurance practitioner" as used in this Framework is broader than the term "auditor" as used in ASAs and ASREs, which relates only to assurance practitioners performing audit or review engagements with respect to historical financial information.
- 25 An assurance practitioner may be requested, or decide, to perform assurance engagements on a wide range of subject matters. Some subject matters may require specialised skills and knowledge beyond those ordinarily possessed by an individual assurance practitioner. As noted in paragraph 18(a), an assurance practitioner does not accept an assurance engagement if preliminary knowledge of the assurance engagement circumstances indicates that ethical requirements regarding professional competence will not be satisfied. In some cases this requirement can be satisfied by the assurance practitioner using the work of persons from other professional disciplines, referred to as experts. In such cases, the assurance practitioner ought to be satisfied that those persons carrying out the assurance engagement collectively possess the requisite skills and knowledge, and that the assurance practitioner has an adequate level of involvement in the assurance engagement and understanding of the work for which any expert is used.

Responsible Party

- 26 The responsible party is the person (or persons) who:

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

The responsible party may or may not be the party who engages the assurance practitioner (the engaging party).

- 27 The responsible party ordinarily provides the assurance practitioner with a written representation that evaluates or measures the subject matter against the identified criteria, whether or not it is to be made available as an assertion to the intended users. In a direct reporting assurance engagement, the assurance practitioner may not be able to obtain such a representation when the engaging party is different from the responsible party.

Intended Users

- 28 The intended users are the person, persons or class of persons for whom the assurance practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one.
- 29 Whenever practical, the assurance report is addressed to all the intended users, but in some cases there may be other intended users. The assurance practitioner may not be able to identify all those who will read the assurance report, particularly where there is a large number of people who have access to it. In such cases, particularly where possible readers are likely to have a broad range of interests in the subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement

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between the assurance practitioner and the responsible party or engaging party, or by law.

- 30 Whenever practical, intended users or their representatives are involved with the assurance practitioner and the responsible party (and the engaging party if different) in determining the requirements of the assurance engagement. Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting findings based upon the procedures, rather than a conclusion):
- (a) the assurance practitioner is responsible for determining the nature, timing and extent of procedures; and
 - (b) the assurance practitioner ought to pursue any matter the assurance practitioner becomes aware of that leads the assurance practitioner to question whether a material modification ought to be made to the subject matter information.
- 31 In some cases, intended users (for example, bankers and regulators) impose a requirement on, or request the responsible party (or the engaging party if different) to arrange for, an assurance engagement to be performed for a specific purpose. When assurance engagements are designed for specified intended users or a specific purpose, the assurance practitioner considers including a restriction in the assurance report that limits its use to those users or that purpose.

Subject Matter

- 32 The subject matter, and subject matter information, of an assurance engagement can take many forms, such as:
- 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 a financial report.
 - 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.

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- Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.
- Systems and processes (for example, an entity's internal control or IT system) for which the subject matter information may be an assertion about effectiveness.
- Behaviour (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.

33 Subject matters have different characteristics, including the degree to which information about them is qualitative versus quantitative, objective versus subjective, historical versus prospective, and relates to a point in time or covers a period. Such characteristics affect the:

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

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

34 An appropriate subject matter is:

- (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.

Criteria

35 Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria can be formal, for example in the preparation of a financial report, the criteria may be Australian Accounting Standards; when reporting on internal control, the criteria may be an established internal control framework or individual control objectives specifically designed for the assurance engagement; and when reporting on compliance, the criteria may be the applicable law, regulation or contract. Examples of less formal criteria are an

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internally developed code of conduct or an agreed level of performance (such as the number of times a particular committee is expected to meet in a year).

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

37 Suitable criteria exhibit the following characteristics:

- (a) **Relevance:** relevant criteria contribute to conclusions that assist decision-making by the intended users.
- (b) **Completeness:** criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the assurance engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
- (c) **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.
- (d) **Neutrality:** neutral criteria contribute to conclusions that are free from bias.
- (e) **Understandability:** understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

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

38 The assurance practitioner assesses the suitability of criteria for a particular assurance engagement by considering whether they reflect

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the above characteristics. The relative importance of each characteristic to a particular assurance engagement is a matter of judgement. Criteria can either be established or specifically developed. Established criteria are those embodied in laws or regulations, or issued by authorised or recognised bodies of experts that follow a transparent due process. Specifically developed criteria are those designed for the purpose of the assurance engagement. Whether criteria are established or specifically developed affects the work that the assurance practitioner carries out to assess their suitability for a particular assurance engagement.

- 39 Criteria ought to be available to the intended users to allow them to understand how the subject matter has been evaluated or measured. Criteria are made available to the intended users in one or more of the following ways:
- (a) publicly;
 - (b) through inclusion in a clear manner in the presentation of the subject matter information;
 - (c) through inclusion in a clear manner in the assurance report; or
 - (d) by general understanding, for example the criterion for measuring time in hours and minutes.

Criteria may also be available only to specific intended users, for example the terms of a contract, or criteria issued by an industry association that are available only to those in the industry. When identified criteria are available only to specific intended users, or are relevant only to a specific purpose, use of the assurance report is restricted to those users or for that purpose.⁸

Evidence

- 40 The assurance practitioner plans and performs an assurance engagement with an attitude of professional scepticism to obtain sufficient appropriate evidence about whether the subject matter information is free of material misstatement. The assurance practitioner considers materiality, assurance engagement risk, and the quantity and quality of available evidence when planning and

⁸ While an assurance report may be restricted whenever it is intended only for specified intended users or for a specific purpose, the absence of a restriction regarding a particular reader or purpose, does not itself indicate that a legal responsibility is owed by the practitioner in relation to that reader or for that purpose. Whether a legal responsibility is owed will depend on the circumstances of each case and the relevant jurisdiction.

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performing the assurance engagement, in particular when determining the nature, timing and extent of evidence-gathering procedures.

Professional Scepticism

- 41 The assurance practitioner plans and performs an assurance engagement with an attitude of professional scepticism recognising that circumstances may exist that cause the subject matter information to be materially misstated. An attitude of professional scepticism means the assurance practitioner makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party. For example, an attitude of professional scepticism is necessary throughout the assurance engagement process for the assurance practitioner to reduce the risk of overlooking suspicious circumstances, of over generalising when drawing conclusions from observations, and of using faulty assumptions in determining the nature, timing and extent of evidence gathering procedures and evaluating the results thereof.
- 42 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, the assurance practitioner considers the reliability of the information to be used as evidence, for example photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.

Sufficiency and Appropriateness of Evidence

- 43 Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The quantity of evidence needed is affected by the risk of the subject matter information being materially misstated (the greater the risk, the more evidence is likely to be required) and also by the quality of such evidence (the higher the quality, the less may be required). Accordingly, the sufficiency and appropriateness of evidence are interrelated. However, merely obtaining more evidence may not compensate for its poor quality.
- 44 The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. Generalisations about the reliability of various kinds of evidence can be made; however, such generalisations are

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subject to important exceptions. Even when evidence is obtained from sources external to the entity, circumstances may exist that could affect the reliability of the information obtained. For example, evidence obtained from an independent external source may not be reliable if the source is not knowledgeable. While recognising that exceptions may exist, the following generalisations about the reliability of evidence may be useful:

- Evidence is more reliable when it is obtained from independent sources outside the entity.
- Evidence that is generated internally is more reliable when the related controls are effective.
- Evidence obtained directly by the assurance practitioner (for example, observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, enquiry about the application of a control).
- Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of what was discussed).
- Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.

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

46 In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance about subject matter information covering a period than about subject matter information at a point in time. In addition, conclusions provided on processes ordinarily are limited to the period covered by the assurance engagement; the

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assurance practitioner provides no conclusion about whether the process will continue to function in the specified manner in the future.

- 47 The assurance practitioner considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering 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.

Materiality

- 48 Materiality is relevant when the assurance practitioner determines the nature, timing and extent of evidence-gathering procedures, and when assessing whether the subject matter information is free of misstatement. When considering materiality, the assurance practitioner understands and assesses what factors might influence the decisions of the intended users. For example, when the identified criteria allow for variations in the presentation of the subject matter information, the assurance practitioner considers how the adopted presentation might influence the decisions of the intended users. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation or measurement of the subject matter, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular assurance engagement are matters for the assurance practitioner's judgement.

Assurance Engagement Risk

- 49 Assurance engagement risk is the risk that the assurance practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.⁹ In a reasonable assurance

⁹ (a) This includes the risk, in those direct reporting engagements where the subject matter information is presented only in the practitioner's conclusion, that the practitioner inappropriately concludes that the subject matter does, in all material respects, conform with the criteria, for example: "In our opinion, internal control is effective, in all material respects, based on *XYZ criteria*."

(b) In addition to assurance engagement risk, the practitioner is exposed to the risk of expressing an inappropriate conclusion when the subject matter information is not materially misstated, and risks through loss from litigation, adverse publicity, or other

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engagement, the assurance practitioner reduces 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 limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures. However, in a limited assurance engagement, the combination of the nature, timing and extent of evidence-gathering procedures is at least sufficient for the assurance practitioner to obtain a meaningful level of assurance as the basis for a negative form of expression. To be meaningful, the level of assurance obtained by the assurance practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

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

- (a) The risk that the subject matter information is materially misstated, which in turn consists of:
 - (i) Inherent risk: the susceptibility of the subject matter information to a material misstatement, assuming that there are no related controls.
 - (ii) Control risk: the risk that a material misstatement that could occur will not be prevented, or detected and corrected, on a timely basis by related internal controls. When control risk is relevant to the subject matter, some control risk will always exist because of the inherent limitations of the design and operation of internal control.
- (b) Detection risk: the risk that the assurance practitioner will not detect a material misstatement that exists.

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

events arising in connection with a subject matter reported on. These risks are not part of assurance engagement risk.

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Nature, Timing and Extent of Evidence-Gathering Procedures

- 51 The exact nature, timing and extent of evidence-gathering procedures will vary from one assurance engagement to the next. In theory, infinite variations in evidence-gathering procedures are possible. In practice, however, these are difficult to communicate clearly and unambiguously. The assurance practitioner attempts to communicate them clearly and unambiguously and uses the form appropriate to a reasonable assurance engagement or a limited assurance engagement.¹⁰
- 52 Reasonable assurance is a concept relating to accumulating evidence necessary for the assurance practitioner to conclude in relation to the subject matter information taken as a whole. To be in a position to express a conclusion in the positive form required in a reasonable assurance engagement, it is necessary for the assurance practitioner to obtain sufficient appropriate evidence as part of an iterative, systematic assurance engagement process involving:
- (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 procedures.
 - (d) Performing further evidence-gathering procedures clearly linked to the identified risks, using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and enquiry. Such further evidence-gathering procedures involve substantive procedures including, where applicable, obtaining corroborating information from sources independent of the responsible party, and depending on the nature of the subject matter, tests of the operating effectiveness of controls.

¹⁰ Where the subject matter information is made up of a number of aspects, separate conclusions may be provided on each aspect. While not all such conclusions need to relate to the same level of evidence-gathering procedures, each conclusion is expressed in the form that is appropriate to either a reasonable assurance engagement or a limited assurance engagement.

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- (e) Evaluating the sufficiency and appropriateness of evidence.
- 53 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; and
 - in some cases, the characteristics of the subject matter when evaluated or measured against the identified criteria.
- 54 Both reasonable assurance engagements 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 process that includes obtaining an understanding of the subject matter and other assurance engagement circumstances. The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are, however, deliberately limited relative to a reasonable assurance engagement.
- 55 For some subject matters, there may be specific pronouncements to provide guidance on procedures for gathering sufficient appropriate evidence for a limited assurance engagement. For example, ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, establish that sufficient appropriate evidence for reviews of a financial report is obtained primarily through analytical procedures and enquiries. In the absence of a relevant pronouncement, 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.
- 56 For both reasonable assurance engagements and limited assurance engagements, if the assurance practitioner becomes aware of a matter that leads the assurance practitioner to question whether a material modification ought to be made to the subject matter information, the assurance practitioner pursues the matter by

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performing other procedures sufficient to enable the assurance practitioner to report.

Quantity and Quality of Available Evidence

- 57 The quantity or quality of available evidence is affected by:
- (a) The characteristics of the subject matter and subject matter information. For example, less objective evidence might be expected when information about the subject matter is future oriented rather than historical (see paragraph 33).
 - (b) Circumstances of the assurance engagement other than the characteristics of the subject matter, when evidence that could reasonably be expected to exist is not available because of, for example, the timing of the assurance practitioner's appointment, an entity's document retention policy, or a restriction imposed by the responsible party.

Ordinarily, available evidence will be persuasive rather than conclusive.

- 58 An unqualified conclusion is not appropriate for either type of assurance engagement in the case of a material limitation on the scope of the assurance practitioner's work, that is, when:
- (a) circumstances prevent the assurance practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level; or
 - (b) the responsible party or the engaging party imposes a restriction that prevents the assurance practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level.

Assurance Report

- 59 The assurance practitioner provides a written report¹¹ containing a conclusion that conveys the assurance obtained about the subject matter information. ASAs, ASREs and ASAEs establish basic

¹¹ 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 entity ought to be prominently disclosed in the assurance practitioner's 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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elements for assurance reports. In addition, the assurance practitioner considers other reporting responsibilities, including communicating with those charged with governance when it is appropriate to do so.

- 60 In an assertion-based assurance engagement, the assurance practitioner's conclusion can be worded either:
- (a) in terms of the responsible party's assertion (for example: "In our opinion the responsible party's assertion that internal control is effective, in all material respects, based on XYZ criteria, is fairly stated"); or
 - (b) directly in terms of the subject matter and the criteria (for example: "In our opinion internal control is effective, in all material respects, based on XYZ criteria").

In a direct reporting assurance engagement, the assurance practitioner's conclusion is worded directly in terms of the subject matter and the criteria.

- 61 In a reasonable assurance engagement, the assurance practitioner expresses the conclusion in the positive form, for example: "In our opinion internal control is effective, in all material respects, based on XYZ criteria." This form of expression conveys "reasonable assurance." Having performed evidence-gathering procedures of a nature, timing and extent that were reasonable given the characteristics of the subject matter and other relevant assurance engagement circumstances described in the assurance report, the assurance practitioner has obtained sufficient appropriate evidence to reduce assurance engagement risk to an acceptably low level.
- 62 In a limited assurance engagement, the assurance practitioner expresses the conclusion in the negative form, for example, "Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control is not effective, in all material respects, based on XYZ criteria." This form of expression conveys a level of "limited assurance" that is proportional to the level of the assurance practitioner's evidence-gathering procedures given the characteristics of the subject matter and other assurance engagement circumstances described in the assurance report.
- 63 An assurance practitioner does not express an unqualified conclusion for either type of assurance engagement when the following circumstances exist and, in the assurance practitioner's judgement, the effect of the matter is or may be material:

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- (a) There is a limitation on the scope of the assurance practitioner's work (see paragraph 58). The assurance practitioner expresses a qualified conclusion or a disclaimer of conclusion depending on how material or pervasive the limitation is. In some cases, the assurance practitioner considers withdrawing from the assurance engagement.
- (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,¹²the assurance practitioner expresses a qualified or adverse conclusion depending on how material or pervasive the matter is.
- (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 expresses:
 - (i) a qualified conclusion or adverse conclusion depending on how material or pervasive the matter is, when the unsuitable criteria or inappropriate subject matter is likely to mislead the intended users; or
 - (ii) a qualified conclusion or a disclaimer of conclusion depending on how material or pervasive the matter is, in other cases.

In some cases the assurance practitioner considers withdrawing from the assurance engagement.

¹² 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).

Inappropriate Use of the Assurance Practitioner's Name

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

Conformity with International Framework for Assurance Engagements

- 65 Except as noted below, this *Framework for Assurance Engagements* conforms with the *International Framework for Assurance Engagements* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main differences between this Framework and the International Framework are:

- Terminology and references have been updated for AUASB pronouncements and other Australian professional pronouncements.
- There is a definition of the term "assurance practitioner" which means a person or an organisation, whether in public practice, industry, commerce or the public sector, involved in the provision of assurance services (paragraph 2).
- The term "assurance practitioner" in this pronouncement has replaced the terms "practitioner" and "professional accountant".
- The broader fundamental ethical principles apply to all assurance engagements rather than only those included in the applicable code of conduct of a professional accounting body (paragraph 6).
- The following elements of a quality control system apply to all assurance engagements: leadership responsibilities for

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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 7).

- Reasonable assurance means a high, but not absolute, level of assurance (paragraph 12(a)).
- The *International Framework for Assurance Engagements* includes a Public Sector Perspective. This *Framework for Assurance Engagements* does not include a separate section on the public sector as this pronouncement is sector neutral.

Compliance with this *Framework for Assurance Engagements* enables compliance with the *International Framework for Assurance Engagements*.

APPENDIX 1

DIFFERENCES BETWEEN REASONABLE ASSURANCE ENGAGEMENTS AND LIMITED ASSURANCE ENGAGEMENTS

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

Type of assurance engagement	Objective	Evidence-gathering procedures ¹³	The assurance report
Reasonable assurance engagement	A reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement, 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. (Paragraph 12(a))	Sufficient appropriate evidence is obtained as part of a systematic assurance engagement process that includes: <ul style="list-style-type: none"> • Obtaining an understanding of the assurance engagement circumstances; • Assessing risks; • Responding to assessed risks; • Performing further evidence-gathering procedures using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and enquiry. Such further evidence-gathering procedures involve substantive procedures, including, where applicable, obtaining corroborating information, and depending on the nature of the subject matter, tests of the operating effectiveness of controls; and • Evaluating the evidence obtained. (Paragraph 52) 	Description of the assurance engagement circumstances, and a positive form of expression of the conclusion. (Paragraph 61)

¹³ A detailed discussion of evidence-gathering requirements is only possible within ASAs, ASREs and ASAEs for specific subject matters.

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Type of assurance engagement	Objective	Evidence-gathering procedures¹³	The assurance report
Limited assurance engagement	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. (Paragraph 12(b))	Sufficient appropriate evidence is obtained as part of a systematic assurance engagement process that includes obtaining an understanding of the subject matter and other assurance engagement circumstances, but in which evidence-gathering procedures are deliberately limited relative to a reasonable assurance engagement. (Paragraph 54)	Description of the assurance engagement circumstances, and a negative form of expression of the conclusion. (Paragraph 62)