



Australian Government  
Auditing and Assurance Standards Board

# A guide for **Prescribing Assurance and Related Services**

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# About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, Non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the Corporations Act 2001. For more information about the AUASB see the [AUASB Website](#).

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The views expressed in this publication are those of the author(s) and those views do not necessarily coincide with the views of the Auditing and Assurance Standards Board. Any errors or omissions remain the responsibility of the principal authors.

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# Who is this publication for?

Many users of information seek ways to independently enhance the credibility of, and therefore the confidence they have in, information that is provided to them. The most common way of doing this is to prescribe the conduct of an 'assurance engagement' by an independent third party who performs procedures on the information to obtain evidence in order to form an opinion on its quality.

To be effective, it is essential that the requirements contained in legislation, contracts or other formal agreements which mandate the performance of an assurance engagement be clear and achievable. Unclear assurance requirements or requiring assurance over information that is difficult to assure or can't be assured creates significant issues for both the assurance practitioner being asked to provide the assurance service and the organisation which is required to engage, prepare and pay for the assurance engagement.

This guide is intended to assist legislators, grantors, regulators and other organisations or individuals that mandate assurance engagements as part of their regulatory frameworks, to draft assurance requirements which are clear and effective. Throughout this guide the term **"Assurance Prescriber"** is used to describe this group.

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You will find this guide helpful when:

- New legislation is being proposed and/or existing legislation is being revised and an assurance engagement is part of these requirements.
  - Drafting contracts or other formal agreements where an assurance engagement is to be required.
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# Introduction

At its core, an assurance engagement involves an independent **assurance practitioner** expressing an opinion/conclusion about the preparation of **subject matter information** in accordance with **criteria** which enhances the credibility of the **subject matter information** for the **intended user** (other than the preparer).

All assurance engagements, regardless of the subject matter, contain the same five basic elements<sup>1</sup>:

- A three-party relationship;
- Appropriate subject matter;
- Suitable criteria;
- Sufficient and appropriate evidence; and
- A written conclusion.

To draft clear and effective assurance requirements it is important for **Assurance Prescribers** to understand the elements of an assurance engagement, how they link together and how to appropriately describe them in the legislation, constitution or other formal agreement.

This guide is structured to outline the key terms and concepts in drafting an assurance engagement, explain their relationship and how to put everything together to draft effective and clear requirements.

<sup>1</sup> See [Framework for Assurance Engagements](#), paragraphs 26-92.

# Key Concepts and Terms

This section provides a brief introduction to the key concepts and terms of an assurance engagement. **Appendix 1** provides more detail and examples for the concepts and terms outlined below.

## The Three Parties of an Assurance Engagement

All assurance engagements have at least three separate parties, the assurance practitioner, the responsible party and the intended users.

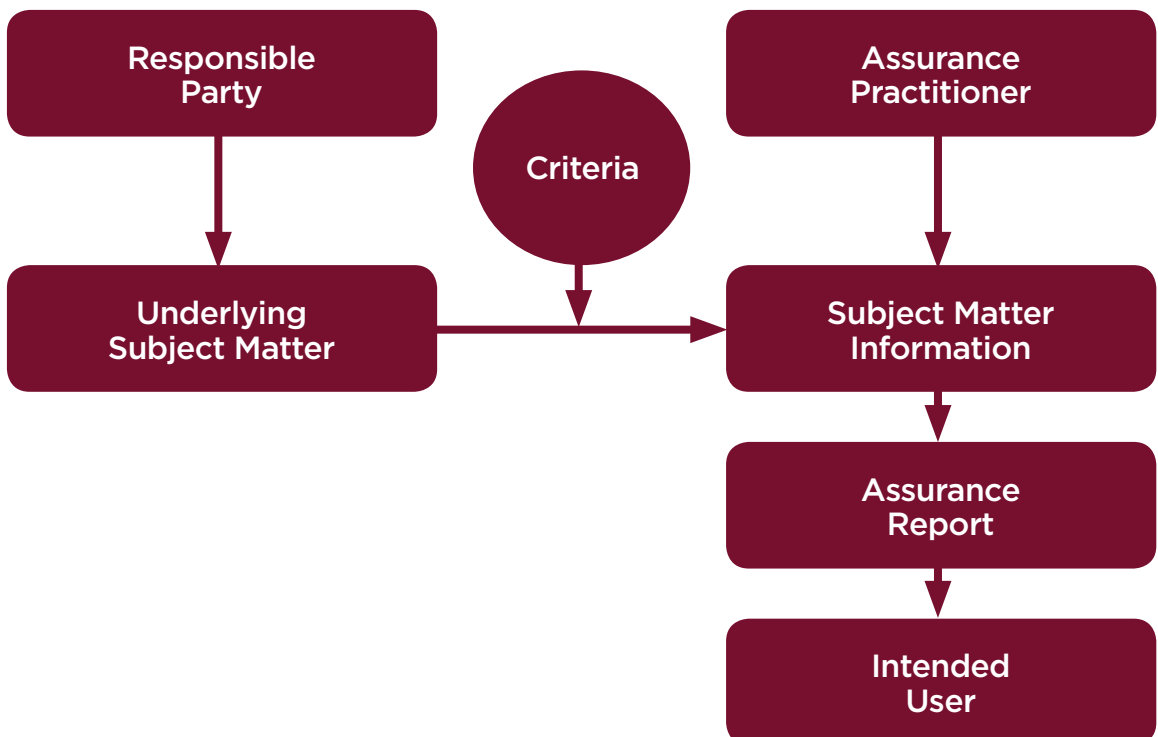
**Responsible Party** – In an assurance engagement, the responsible party is the preparer of the subject matter information (see next section for definition of subject matter information) in accordance with the criteria, including the evidence to support the subject matter information. The Responsible Party is generally also responsible for obtaining and paying for the assurance service although there may be a separate engaging party that does this.

**Assurance Practitioner** – The assurance practitioner is the individual or individuals performing the assurance engagement.

**Intended Users** – The intended users are the individual(s), organisation(s), or group(s) that are expected to use the information and benefit from the enhanced credibility provided through assurance. The assurance report, provided alongside the subject matter information, is how this credibility (or lack of credibility) is communicated to the intended user by the assurance practitioner.

The responsible party can be one of the intended users, but not the only one.

Figure 1 - The three-party relationship



## Subject Matter and Criteria

**Underlying Subject Matter** – In an assurance engagement, the underlying subject matter refers to the type of information that the assurance engagement covers. Under the standards issued by the AUASB, a range of subject matters, both financial and non-financial, can be assured. See Appendix 1 for examples of underlying subject matter.

**Note:** *Not all subject matters can be assured. Generally, the appropriateness of an underlying subject matter for assurance is linked to criteria, and whether the subject matter is identifiable and capable of consistent measurement or evaluation against the identified criteria.*

**Criteria** – In an assurance engagement, criteria are the benchmarks used to measure or evaluate an underlying subject matter. Criteria can be formal, such as Australian Accounting Standards, or less formal, such as an internally developed code of conduct or an agreed level of performance.

Suitable criteria must be available to the intended users to allow them to understand how the subject matter information has been measured or evaluated.

**Subject Matter Information** – The term subject matter information is used to describe the outcome of the measurement or evaluation of an underlying subject matter against the criteria, for example, a complete set of financial statements prepared in accordance with Australian accounting standards. It is the subject matter information which the assurance practitioner expresses a conclusion on.

## Levels of Assurance

Under the AUASB Standards, no engagement can provide absolute assurance over subject matter information, that is 100% assurance. Instead engagements can provide reasonable assurance (for example an audit) limited assurance (for example a review) or no assurance (for example a compilation engagement). These three types of engagements are outlined below with a more detailed explanation of the differences between the engagements included in **Appendix 1**.

Assurance Levels	Reasonable	Limited	No Assurance
Nature:	A high but not absolute level of assurance.	A level of assurance greater than no assurance but less than reasonable assurance.	No assurance.
Nature, timing and extent of procedures responsibility of:	Generally involves detailed testing, evidence gathering and substantiation to support the assurance practitioner's opinion.	Primarily enquiries and analytical review, with less detailed procedures, based on an assessment of risk and materiality to support the auditor's conclusion.	Assurance practitioner performs procedures that have been agreed by the assurance practitioner and the engaging party
Form and content of report:	The assurance practitioner's opinion for a reasonable assurance engagement can generally be characterised as "positive" as it states that the subject matter information based on the procedures performed is not materially misstated.	The assurance practitioner's conclusion for a limited assurance engagement can generally be characterised as "negative" as it states that, based on the procedures performed, nothing has come to the assurance practitioner's attention that would make them believe the subject matter information is materially misstated.	No conclusion provided. Statement of procedures performed (and results where applicable).
Example engagement:	Audit of a financial report.	Review of a financial report.	Agreed upon procedures engagement. Compilation engagement.

# Preparing to Draft Clear and Effective Assurance Requirements

To draft clear and effective assurance requirements, all the elements of an assurance engagement need to be present and appropriately described.

This section of the guide expands on these concepts and outlines their relationship to each and provides a checklist for an assurance prescriber to prepare before beginning drafting.

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*Does the engagement have:*

- ✓ A rational purpose for the engagement including the identification of an appropriate level of assurance that supports this purpose;
  - ✓ Appropriate subject matter;
  - ✓ Suitable criteria;
  - ✓ Clear identification of who can perform the engagement; and
  - ✓ Appropriate reporting.
- 

## Rational Purpose for Assurance and Level of Assurance

A key step before mandating an assurance engagement is to establish a clear purpose for the engagement as this drives all other decisions in the process. A clear purpose is established through understanding:

- Who are the intended users of the subject matter information;
- How will they benefit from assurance; and
- Do the benefits of assurance outweigh the cost?

### Identifying the intended users of information and considering whether their needs will be met through prescribing assurance

The intended users are the individual(s), organisation(s), or group(s) that are expected to use the subject matter information and benefit from the enhanced credibility provided through assurance (See Appendix 1 for more detail regarding intended users).

In some cases, intended users can be broad groups such as shareholders of a publicly listed company or specific groups such as, bankers and regulators who impose specific requirements for assurance.

Intended users benefit from assurance in a number of different ways, generally they benefit from assurance as they are unable to determine the reliability of information on their own due to:

- **Complexity** – The subject matter information may be complex, and the intended user does not have a sufficient level of knowledge to determine whether the information presented is reliable; and
- **Access** – The intended user is not able to directly access the underlying subject matter information and cannot perform their own procedures to determine the reliability.



### **Do the benefits of an assurance engagement for intended users outweigh the cost for the preparer (responsible party)?**

Whilst the needs of intended users are important, it is also necessary to balance the benefits against the cost to engage an assurance practitioner to provide the assurance service and the effort required to prepare the subject matter information. The consideration of the appropriate level of assurance to meet users' needs should also occur at this stage.

To be meaningful, the level of assurance obtained by the assurance practitioner should enhance the intended users' confidence in the subject matter information to a degree that is more than inconsequential.

Reasonable assurance, which is provided in an audit of financial information, is most commonly used for assurance engagements as it is the most widely understood level of assurance and provides the highest level of confidence for intended users in the quality of subject matter information. Whilst reasonable assurance may be appropriate in a number of situations, it may not always be appropriate.

It is important for an Assurance Prescriber to consider whether a reasonable assurance engagement is 'value for money' and does not impose onerous requirements on entities.

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**Note:** *Not all subject matters are able to have reasonable assurance provided. See below section on appropriate underlying subject matter for further information.*

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Picking the right level of assurance is a balance between the level of confidence required by users and the responsible party's cost, time and effort to prepare the required information and engage an independent assurance practitioner to provide assurance on this information.

It is important to understand that an assurance engagement does not consider every single component of the underlying subject matter information. Instead, assurance practitioners express their opinions (in reasonable assurance engagements) or their conclusion (in limited assurance engagements) in relation to information that is material to the intended users.

Information is material if its misstatement, including omissions, could reasonably be expected to influence relevant decisions of intended users based on the subject matter information.

In some instances, assurance prescribers may find that an agreed-upon procedures (AUP) engagement is more suitable to their needs as specific procedures can be performed and factual findings reported rather than an opinion/conclusion expressed over a subject matter as a whole. However, Assurance Prescribers need to consider if a factual findings report will meet the needs of users.

Regardless of the level of assurance, the standards issued by the AUASB are premised on:

- The assurance practitioner being subject to relevant ethical requirements including independence; and
- The assurance practitioner having in place a system of quality control that deals with the firm's responsibilities to establish and maintain policies and procedures addressing elements such as human resources and quality reviews.

## Appropriate Underlying Subject Matter

An appropriate underlying subject matter is identifiable and capable of consistent measurement or evaluation against the applicable criteria such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion.

The appropriateness of an underlying subject matter is generally not affected by the level of assurance and usually if an underlying subject matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa. However, in some situations, the AUASB standards will specify the permitted assurance for specific subject matter information. For example, ASAE 3450 *Assurance Engagements Involving Corporate Fundraisings and/or Prospective Financial Information* specifies that for prospective financial information, only limited assurance can be provided over the assumptions used.

As outlined in the previous section, the needs of intended users need to be identified and the appropriateness of the underlying subject matter is linked to these needs. If the underlying subject matter is not expected to meet the needs of users it is unlikely to be appropriate.

For example, an entity's Board of Directors may wish to obtain assurance over the effective operation of the entity's system of controls related to financial reporting. To meet this need, the Board engages an assurance practitioner to undertake an audit as based on their experience, internal controls testing forms part of an audit. The underlying subject matter in this example is inappropriate as the underlying subject matter of an audit is historical financial information rather than the operation of the system of controls which is what the Board was interested in.

## Suitable Criteria

Suitable criteria are required for reasonably consistent measurement or evaluation of a subject matter. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. This creates significant issues for the assurance practitioner being asked to assess the subject matter against unsuitable criteria and may result in assurance engagements which cannot meet the needs of intended users.

Criteria can be publicly available and widely used or in some instances may be specifically developed for an assurance engagement where no other suitable criteria exist. Vague descriptions of expectations or judgements of an individual's experiences do not constitute suitable criteria.

To be suitable, criteria must be available to the intended users to allow them to understand how the subject matter information has been measured or evaluated.

Under the AUASB's [\*Framework for Assurance Engagements\*](#), suitable criteria exhibit the following characteristics:

- Relevance – Criteria are relevant to the intended users and assists their decision-making.
- Completeness – Criteria are complete when information prepared in accordance with them do not omit relevant factors that could reasonably be expected to affect decisions of the intended users. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
- Reliability – Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different assurance practitioners.
- Neutrality – Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.
- Understandability – Understandable criteria result in subject matter information that can be understood by the intended users.

The below table provides examples of engagements and whether the criteria to be applied are appropriate or inappropriate.

Example Engagement	Criteria used	Appropriateness
Audit of a Special Purpose Financial Report	Material accounting policies used are not detailed in the notes to the financial report	<b>Inappropriate</b> – The criteria are not available to intended users of the financial information so does not allow them to understand how the subject matter information has been prepared.
Review of Prospective Financial Information included in a public offer document	Assumptions based on internally determined models and non-public information	
Assurance over the system of controls at an outsourced payroll provider	Control objectives that are not consistent with industry standards	<b>Inappropriate</b> – The criteria may not be complete or reliable so the assurance practitioner may be unable to assess whether the underlying controls are appropriate.
Review of compliance with contractual sharing of profits in a joint venture	Joint venture agreements executed by all parties.	<b>Appropriate</b> – The criteria have been agreed to and are available for all parties.
A review of an audit committee's effectiveness	Internally generated policies and procedures	<b>Appropriate or inappropriate</b> – Criteria may not be suitable if they cannot be measured objectively or free of bias. If they are free of bias and can be measured objectively, the criteria are appropriate.  Being internally generated does not automatically make the criteria inappropriate.

## Who is to perform the engagement?

The qualifications, professional affiliations and certification of the practitioner undertaking an engagement is an important factor to address when prescribing assurance requirements.

In Australia, there are different attributes Assurance Prescribers can specify as being required when determining who can perform an assurance engagement for an entity. Similar to how the assurance prescriber determines the appropriate level of assurance for an engagement, it is important that sufficient consideration is given to the qualifications required for assurance practitioners.

The Assurance Standards issued by the AUASB are premised on assurance practitioners complying with the Code of Ethics for Professional Accountants<sup>2</sup> and Quality Control standards regardless of whether they are an accountant. Practically, what this means is that an assurance practitioner performing an engagement in accordance with AUASB Standards must comply with the fundamental principles of ethics including independence (which is linked to the fundamental principles of objectivity and integrity) which are:

- Integrity – Being straightforward and honest in all professional and business relationships
- Objectivity – Not to compromise professional or business judgement because of bias, conflict of interest or undue influence of others.

<sup>2</sup> See [APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#).

- Professional competence and due care – Attain and maintain professional knowledge and skill and to act diligently in accordance with applicable technical and professional standards.
- Confidentiality – Respect the confidentiality of information acquired as a result of professional and business relationships.
- Professional behaviour – comply with relevant laws and regulations and avoid any conduct that may discredit the profession.

For more information on the Code of Ethics and independence, see the [Independence Guide](#) published by the Professional Accounting Bodies and the Accounting Professional & Ethical Standards Board (APESB).

## Options available in Australia

### Members of a Professional Accounting Body

In Australia, there are three legally recognised Professional Accounting Bodies:

- CPA Australia (CPA);
- Chartered Accountants Australia and New Zealand (CAANZ); and
- the Institute of Public Accountants (IPA).

To become a member of a Professional Accounting Body, an accredited degree or qualification must be held, and the applicant must complete the Professional Accounting Body's study program. Before being admitted as a member, the applicant must also meet practical experience requirements which in some cases is required to be completed with a mentor. Once a member is admitted, the member is subject to on-going professional development/education requirements to maintain membership.

Members of a Professional Accounting Body in Australia are bound by the Standards issued by the APESB. These standards include the Code of Ethics for Professional Accountants<sup>2</sup> which all members are to comply with as well as a number of other standards which specify in more detail a Member's professional and ethical obligations in respect of the conduct of specific professional services e.g. tax, audit or in specific situations, such as holding client monies.

The Code of Ethics for Professional Accountants establishes fundamental principles of ethical behaviour as well as independence requirements for practitioners undertaking audit or review engagements.

### Public Practice Certification

Generally, anyone who is a member of one of the Professional Accounting Bodies which offers professional accounting and/or related services to the public is required to hold a Public Practice Certification (PPC) under their professional accounting body's by-laws.

A PPC is required for a Sole Trader, Director, Principal, Partner or Shareholder in an accounting or related practice. Services which require a PPC are not limited to auditing and include:

- Accounting;
- Tax advice; or
- Insolvency and bankruptcy.

To be granted a PPC, the practitioner must:

- Demonstrate that they have the required practical experience;
- Hold appropriate professional indemnity insurance; and
- Agree to comply with the Professional Accounting Body's quality review program.

### Registered company auditor

Under the *Corporations Act 2001*, only a Registered Company Auditor (RCA) is able to perform audits and reviews of corporate entities (some exceptions apply).

In order to be a Registered Company Auditor (RCA) in Australia, an individual (or company) must have relevant qualifications, appropriate skills, and be a capable, fit and proper person (s1280 *Corporations Act 2001*).

ASIC has responsibility for the surveillance, investigation and enforcement of the financial reporting and auditing requirements of the *Corporations Act 2001* and conducts regular audit inspections and surveillances. In undertaking reviews, if ASIC find an RCA's conduct to be deficient, they may:

- impose or vary conditions on the auditor's registration;
- agree to an enforceable undertaking; or
- refer the matter to the Companies Auditors Disciplinary Board.

It is important to remember when prescribing who can perform an engagement that, whilst an RCA is a high level of qualification for an assurance practitioner, it is a qualification established under the *Corporations Act 2001*. The assessment, registration and monitoring process for RCAs is intended to ensure they are able to perform engagements under the *Corporations Act 2001* and this comprehensive level of skill may not be necessary for other assurance engagements.

### Choosing the right practitioner

The choice of assurance practitioner for an engagement can vary greatly based on the underlying subject matter. Some underlying subject matters may require specialised skills and knowledge beyond those ordinarily possessed by a general assurance practitioner and it is important that the assurance practitioner undertaking the engagement have the appropriate competence and capabilities to be able to provide confidence to the intended users.

The AUASB Standards do not specify who is qualified to be able to perform assurance engagements. In Australia, legislation or regulation may define who can perform particular engagements such as an RCA as well as the Professional Accounting Bodies who have their own restrictions on what types of engagements members can undertake, based on their qualifications.

### Appropriate Reporting

A key component of an assurance engagement is the written report which the assurance practitioner communicates their opinion/conclusion to the intended users. To promote consistency in reporting, the AUASB standards establish the basic elements for an assurance report which include:

- An opinion/conclusion section containing an expression of opinion/conclusion on the subject-matter and a reference to the applicable criteria used to prepare the subject-matter.
- A description of management's responsibilities for the preparation of the subject-matter and an identification of those responsible for the oversight of the reporting process.
- A reference to the relevant AUASB Standards and the law or regulation, and a description of the assurance practitioners' responsibilities.
- In some engagement circumstance additional elements may be required to be included in the report.

The AUASB Standards also provide template reports to be used for each engagement type.

# Drafting Assurance Requirements

## Putting it all together

The previous two sections have been focused on understanding the key concepts of an assurance engagement, establishing that they are present in the proposed engagement. This section will focus on how to put it all together.

As outlined above, an assurance engagement needs to have all the elements of an assurance engagement present and clearly described to effectively prescribe an assurance engagement. The below example shows how all the elements fit together.

*Figure 2 - Example adapted from WBCSD & ICAEW: A buyer's guide to assurance on non-financial information*

The **management of ABC** must appoint an **assurance practitioner** to provide **reasonable assurance** to their **stakeholders** in relation to disclosures in **ABC's sustainability report**. Two key performance metrics are to be evaluated:

- 1. Water use per litre of product packaged.**
- 2. Total volume of waste sent to landfill (tonnes).**

The assurance practitioner will evaluate ABC's disclosed targets against the **GRI Standards** in order to form an opinion. The opinion will be presented in a **formal report** attached to ABC's sustainability report.

<b>The three parties</b>	<b>Level of assurance</b>	<b>Subject matter information</b>	<b>Criteria</b>
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## Examples of engagement drafting

There are a number of different ways to draft assurance requirements in legislation or other formal agreements. What is key before drafting is to clearly establish:

- the purpose;
- the relevant criteria;
- the subject matter information;
- the level of assurance; and
- the qualifications of the assurance practitioner.

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## Example 1 – Audit

<b>Purpose:</b>	Provide reasonable assurance to intended users of the financial report including the regulator.
<b>Criteria:</b>	XYZ regulations.
<b>Subject matter information:</b>	Financial report prepared in accordance with XYZ regulations.
<b>Level of assurance:</b>	Reasonable.
<b>Assurance practitioner:</b>	Member of a professional accounting body with a certificate of public practice.

*XYZ Pty Ltd (Responsible Party) is required to annually prepare a financial report in accordance with the regulations (subject matter information). The financial report must be audited by an independent auditor who is a member of a professional accounting body and has a certificate of public practice and an auditor's report provided to ABC regulator.*

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## Example 2 – Review

<b>Purpose:</b>	Provide limited assurance to intended users of the financial report, including the regulator.
<b>Criteria:</b>	XYZ regulations.
<b>Subject matter information:</b>	Financial report prepared in accordance with XYZ regulations.
<b>Level of assurance:</b>	Limited.
<b>Assurance practitioner:</b>	Member of a professional accounting body with a certificate of public practice.

*XYZ Pty Ltd (Responsible Party) is required to annually prepare a financial report in accordance with the regulations (subject matter information). The financial report must be reviewed by an independent auditor who is a member of a professional accounting body and has a certificate of public practice and an auditor's review report provided to ABC regulator.*

## Using the appropriate terminology

A key element of prescribing a clear and effective assurance requirement is the use of correct terminology as the use of incorrect terminology can create significant difficulties for the both assurance practitioner and the responsible party organisation requiring the assurance.

The below table provides some examples of how using incorrect terminology can impact on the proposed engagement.

Terminology Example	Impact on Engagement
<p><b>Mixing common terms:</b></p> <p>Financial Statements must be <u>reviewed</u> by an independent auditor and an <u>audit</u> opinion about the report provided.</p>	<p><b>Mixing common terms:</b></p> <p>A review and an audit are two different types of assurance engagements on historical financial information.</p> <p>The use of both terms in the example causes confusion for assurance practitioners as it is unclear what level of assurance is required.</p> <p>The assurance practitioner should either be asked to review the financial statements to provide a review report or to audit the financial statements and to provide an auditor's report.</p>
<p><b>Mixing common terms:</b></p> <p>Financial statements must be revised by an independent auditor and a review <u>opinion</u> about the report provided.</p>	<p><b>Mixing common terms:</b></p> <p>A review and an audit are two different types of assurance engagements on historical financial information.</p> <p>In an audit the assurance practitioner's report expresses an "opinion" on the financial statement whereas in a review the assurance practitioner expresses a "conclusion" on the financial statement.</p> <p>Mixing the use of conclusion and opinion can be confusing as it can imply a different assurance level to what is intended.</p>
<p><b>Implying assurance:</b></p> <p>The assurance practitioner is required to perform an <u>Agreed Upon Procedures</u> (AUP) engagement and perform X-Y procedures and provide an <u>opinion</u> on whether the information is fairly presented.</p>	<p><b>Not understanding the types of engagements:</b></p> <p>An AUP engagement is not an assurance engagement and should not be described in a manner that implies it is.</p> <p>In this example, the use of 'opinion' implies that there is some form of assurance, rather than the reporting of factual findings. An opinion is provided by the assurance practitioner as part of a reasonable assurance engagement and a conclusion is provided as part of a limited assurance engagement.</p> <p>Where an AUP engagement is required, the assurance practitioner should be asked to provide a report of factual findings and not an opinion or conclusion.</p>



Terminology Example	Impact on Engagement
<p><b>Not understanding the types of engagements:</b></p> <p>Final financial reports for Grants over \$X must be independently audited by a member of a Professional Accounting Body, providing assurance about your financial report and submitting a 'Report on Factual Findings' as per Australian Auditing Standard ASRS 4400:</p> <p>The agreed upon procedures for engagement to report factual findings, must include assurances that:</p> <ul style="list-style-type: none"> <li>· the financial report accurately reflects income and expenditure for the Project.</li> <li>· all payments were supported by adequate documentation to show that expenditure was for bona fide goods and services related to the Project.</li> <li>· competitive pricing was obtained for all individual items of expenditure of \$5,000 and over.</li> </ul>	<p><b>Not understanding the types of engagements:</b></p> <p>Whilst reference to specific AUASB Standards can be helpful to assurance practitioners in understanding the engagement they are being asked to perform, incorrect use can create greater issues than no reference.</p> <p>In this example, the assurance practitioner is being asked as part of an AUP engagement to provide assurance as well as their opinion for competitive pricing and adequacy of documentation.</p> <p>An AUP engagement includes presentation of facts as agreed and does not include any opinion/professional judgement of the assurance practitioner.</p>
<p><b>Using incorrect terms:</b></p> <p>An auditor is required to verify completeness of X,Y and Z in the financial statements.</p>	<p><b>Using incorrect terms:</b></p> <p>The term verify is not used in the AUASB standards other than in its common meaning.</p> <p>The use of verify in this example is confusing for assurance practitioners as it being used to define the level of assurance, but it is unknown what level of assurance it is implying (limited or reasonable).</p>
<p><b>Multi-scope engagements:</b></p> <p>The entity must provide an auditor's report in writing stating whether, in the auditor's opinion:</p> <ul style="list-style-type: none"> <li>· The financial statements have been prepared in accordance with proper accounts and records;</li> <li>· the financial statements are based on proper accounts and records; and</li> <li>· the financial statements are in agreement with the accounts and records; and</li> <li>· the expenditure referred to in subparagraph (a)(iv) complies with the conditions outlined.</li> </ul>	<p><b>Multi-scope engagements:</b></p> <p>This example is a mixture of two subject matters, an audit of historical financial information and compliance with conditions of a grant.</p> <p>As there are two different subject matters, different criteria and different requirements under the AUASB's Standards, a single opinion cannot be provided over both subject matters. Attempting to combine them under one report is confusing and problematic for assurance practitioners.</p>
<p><b>Auditor's / Assurance Practitioner's Opinion:</b></p> <p>Opinion paragraph does not use the phrase 'in all material respects'. Issuing an auditor's / assurance practitioner's opinion with no reference to materiality may be seen to imply absolute assurance by the auditor.</p>	<p><b>Auditor's / Assurance Practitioner's Opinion:</b></p> <p>An audit or reasonable assurance engagement does not involve checking every transaction or activity but instead selecting a sample based on risk and materiality. Therefore, it is critical that any opinion is provided in 'all material respects' otherwise the report would imply absolute assurance which is not possible under the AUASB standards.</p>

## Example engagements and related reports

As outlined in a previous section, the AUASB Standards outline the minimum requirements for reporting and provide templates to promote consistency. Below are some common engagements and where the related reporting formats can be found.

A more detailed flowchart of engagements and applicable assurance engagements such as the one published by CAANZ<sup>3</sup> has not been included in this guide. Clearly outlining the subject matter, criteria and level of assurance will allow an assurance practitioner to use their professional judgement to determine the appropriate standard(s) as subject matter may cross multiple standards issued by the AUASB.

Subject matter	Reasonable Assurance	Limited Assurance
Financial statements / information	ASA 700	ASRE 2400
Non-financial information	ASAE 3000	ASAE 3000
Compliance with legislation or regulation	ASAE 3100	ASAE 3100
Controls over preparation of financial information	ASAE 3150	ASAE 3150

<sup>3</sup> CAANZ: [\*Which AU auditing and assurance standards apply to my engagement?\*](#)

# Appendix 1

## Further explanation of key concepts and terms

This appendix provides further explanation of the key concepts and terms outlined in section 1 of the publication. The areas covered are:

- The three parties of an assurance engagement;
- Subject matter and criteria;
- Reasonable and limited assurance engagements and agreed-upon procedures engagements;

### The Three Parties of an Assurance Engagement

All assurance engagements have at least three separate parties, the assurance practitioner, the responsible party and the intended users.

#### Responsible Party

In an assurance engagement, the responsible party is the preparer of the subject matter information in accordance with the criteria, including the evidence to support the subject matter information. The responsible party is generally also responsible for obtaining and paying for the assurance service although there may be a separate engaging party that does this.

In an attestation engagement, the responsible party is often also the measurer or evaluator of the subject matter information. See *Attestation and Direct Engagements* for more information.

#### Assurance Practitioner

The assurance practitioner is the individual or individuals performing the assurance engagement. Assurance practitioners performing engagements in accordance with AUASB Standards are required to comply with:

- relevant ethical requirements contained in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*; and
- quality control requirements contained in ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*.

The objective of the assurance practitioner is to obtain sufficient and appropriate evidence to form an opinion on whether the subject matter information, prepared by the responsible party, has been prepared in accordance with the relevant criteria.

The assurance practitioner has sole responsibility for the opinion expressed, and that responsibility is not reduced by the assurance practitioner's use of experts or other assurance practitioners. The assurance practitioner communicates this opinion through an assurance report which is provided to intended users alongside the subject matter information to assist their decision making.

The assurance report can enhance the credibility of the subject matter information, but also draw attention to parts of the subject matter information which may not be credible, or that the subject matter information as a whole is not credible. See the below extracts of a "clean" and modified audit opinion.

Table 1 - Example clean and modified audit opinion

Unmodified audit opinion	Modified audit opinion (qualification)
<p>In our opinion, the accompanying financial report of ABC Company Ltd., is in accordance with the <i>Corporations Act 2001</i>, including:</p> <p>(a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its financial performance for the year then ended; and</p> <p>(b) complying with Australian Accounting Standards and the <i>Corporations Regulations 2001</i>.</p>	<p>In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial report of ABC Company Ltd., is in accordance with the <i>Corporations Act 2001</i>, including:</p> <p>(a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its financial performance for the year then ended; and</p> <p>(b) complying with Australian Accounting Standards and the <i>Corporations Regulations 2001</i>.</p>

### Intended Users

The intended users are the individual(s), organisation(s), or group(s) that are expected to use the information and benefit from the enhanced credibility provided through assurance. The assurance report, provided alongside the subject matter information, is how this credibility (or lack of credibility) is communicated to the intended user by the assurance practitioner.

The assurance practitioner may not be able to identify all those who will read the assurance report, particularly where a large number of people will have access to it. In such cases, particularly where possible users are likely to have a broad range of interests in the underlying 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 between the assurance practitioner and the responsible party or engaging party, or by law or regulation.

The responsible party can be one of the intended users, but not the only one.

## Subject Matter and Criteria

### Underlying Subject Matter

In an assurance engagement, the underlying subject matter refers to the type of information that the assurance engagement covers. Under the standards issued by the AUASB, a range of subject matters, both financial and non-financial, can be assured. These include:

- Historical financial information (e.g. financial statements);
- Future financial performance (e.g. financial forecasts);
- Non-financial performance or conditions (e.g. performance of an entity measured in key indicators);
- Physical characteristics (e.g. capacity of a facility included in a specifications document);
- Systems and process (e.g. an entity's system of internal controls); or
- Behaviours (e.g. compliance with regulation).

## Criteria

In an assurance engagement, criteria are the benchmarks used to measure or evaluate an underlying subject matter. Criteria can be formal, such as Australian Accounting Standards, or less formal, such as an internally developed code of conduct or an agreed level of performance.

Suitable criteria must be available to the intended users to allow them to understand how the subject matter information has been measured or evaluated. Without suitable criteria, any conclusion is open to individual interpretation and misunderstanding. Vague descriptions of expectations or judgements of an individual's experiences do not constitute suitable criteria. As part of the engagement, the Assurance Practitioner determines whether the criteria is suitable, which is a matter of professional judgement.

## Subject Matter Information

The term subject matter information is used to describe the outcome of the measurement or evaluation of an underlying subject matter against the criteria. It is the subject matter information which the assurance practitioner expresses a conclusion on. The below table has a number of examples of subject matter, criteria and the resulting subject matter information.

Underlying Subject Matter	Criteria	Subject Matter Information
Historical Financial Information: <i>Financial position, performance and cashflow.</i>	Australian Accounting Standards or other agreed accounting policies.	Complete set of Financial Statements.
Historical Non-financial Information: <i>Quantifying an entity's greenhouse gas emissions for a period.</i>	Relevant sections of the <i>National Greenhouse and Energy Reporting (NGER) Act 2007</i> and Regulations.	Report prepared by the entity under the relevant sections of the <i>National Greenhouse and Energy Reporting (NGER) Act 2007</i> and Regulations.
Systems and processes: <i>Design and implementation of a system of internal controls.</i>	Specified control objectives.	Entity's statement of the outcome of the evaluation of a defined system of controls to achieve identified control objectives.
Aspects of behaviour: <i>Compliance with loan covenants.</i>	Loan covenant requirements outlined in loan documentation/contract.	Statement prepared by the entity outlining its compliance with loan covenant requirements.
Prospective Financial Information: <i>Basis of preparation and assumptions.</i>	Stated Basis of Preparation, including any assumptions used to measure the prospective financial information (e.g. growth rates).	Prospective financial information prepared in accordance with the Stated Basis of Preparation and Assumptions.
Non-financial Information: <i>Statement on Value for Money.</i>	Established procurement criteria (e.g. purchasing policies, tendering requirements).	Specified procurement arrangement.

## Levels of assurance obtained

Under the AUASB Standards, no engagement can provide absolute assurance over subject matter information. Instead, under the AUASB standards, two levels of assurance, either reasonable or limited, can be obtained by the practitioner. There are also engagements where no assurance is provided, for example an agreed-upon procedures engagement where specifically agreed procedures are undertaken by the assurance practitioner and a report outlining the results provided to the intended user. These three types of engagements are outlined below.

### Audits and other reasonable assurance engagements

A high but not absolute level of assurance is provided, which generally involves detailed testing, evidence gathering and substantiation to support the assurance practitioner's opinion. The assurance practitioner's opinion for a reasonable assurance engagement can generally be characterised as "positive" as it states that the subject matter information based on the procedures performed is not materially misstated.

A common reasonable assurance engagement is an audit of a financial report which is a reasonable assurance engagement over historical financial information.

### Reviews or limited assurance engagements

A level of assurance greater than no assurance but less than reasonable assurance. 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.

The assurance practitioner's conclusion for a limited assurance engagement can generally be characterised as "negative" as it states that, based on the procedures performed, nothing has come to the assurance practitioner's attention that would make them believe the subject matter information is materially misstated.

A common limited assurance engagement is a review of an interim financial report which is a limited assurance engagement over historical financial information.

Table 2 - Reasonable and limited assurance opinion/conclusion extracts

Example opinion in an auditor' report:	Example conclusion in an auditor' review:
In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of the Entity as at 30 June 20X1, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.	Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim financial report of the Entity does not present fairly, in all material respects, the financial position of the Entity as at 31 December 20X1, and of its financial performance and its cash flows for the period ended on that date, in accordance with Australian Accounting Standards.

## No assurance – AUPs and Compilations

In a no assurance engagement the assurance practitioner performs procedures that have been agreed by the assurance practitioner and the engaging party.

Whilst no assurance is provided, the value of a no assurance engagement is drawn from the assurance practitioner's objectivity, compliance with professional standards (including relevant ethical requirements) and the clear communication of procedures performed.

Common examples of no assurance engagements are:

- an Agreed Upon Procedures (AUP) engagement where agreed procedures are performed by an assurance practitioner and factual findings reported; and
- a compilation engagement where an accountant applies their expertise to assist management with the preparation of financial statements.

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**Note:** *The AUASB does not issue a standard on Compilation Engagements, instead compilations are covered by APES 315 Compilation of Financial Information, issued by the APESB.*

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In an agreed-upon procedures engagement (which is also sometimes referred to as a report on factual findings), the practitioner performs those procedures that have been agreed by the practitioner and the engaging party. No assurance is provided to intended users, instead factual findings are reported by the practitioner in their report. The below table shows some of the key differences between an agreed-upon procedures (AUP) engagement and an assurance engagement (either reasonable or limited).

Differentiating Factor	AUP Engagement	Assurance Engagement
Nature, timing and extent of procedures responsibility of:	Responsibility of the engaging party to acknowledge that the agreed-upon procedures are appropriate for the purpose of the engagement.	Responsibility of the assurance practitioner to design and perform procedures for the purpose of obtaining sufficient appropriate evidence.
Extent of assurance practitioner's professional judgement exercised in selecting procedures:	The need for the practitioner to exercise professional judgement when performing the agreed-upon procedures is limited.	Professional judgement exercised in performing procedures.
Form and content of report:	Factual findings, no conclusion or assurance provided	Conclusion providing assurance.
Reporting of findings:	Detail of exact findings resulting from each procedure performed, including errors and exceptions identified, even if rectified.	No detail of findings, unless a modified report is to be issued when the basis for modification is provided or if a management letter is provided in addition to the assurance report.

Whilst no assurance is provided, the value of an agreed-upon procedures engagement is drawn from the practitioner's objectivity, compliance with professional standards (including relevant ethical requirements) and the clear communication of procedures performed and related findings. The below table outlines some example procedures.

Example agreed-upon procedures and findings	
Procedure	Findings
1. Obtain from management of a listing of all contracts signed between [January 1, 20X8] and [December 31, 20X8] for [xyz] products (“listing”) and identify all contracts valued at over \$25,000.	We obtained from management a listing of all contracts for [xyz] products which were signed between [January 1, 20X8] and [December 31, 20X8].  Of the 125 contracts on the listing, we identified 37 contracts valued at over \$25,000
2. For each identified contract valued at over \$25,000 on the listing, compare the contract to the records of bidding and determine whether the contract was subject to bidding by at least 3 contractors from [Responsible Party]’s “Pre-qualified Contractors List.”	We inspected the records of bidding related to the 37 contracts valued at over \$25,000. We found that all of the 37 contracts were subject to bidding by at least 3 contractors from the [Responsible Party]’s “Pre-qualified Contractors List.”

In a Compilation Engagement an accountant applies accounting and financial reporting expertise to assist management with the preparation and presentation of historical financial information. A compilation engagement is not an assurance engagement and so the accountant does not obtain any assurance, but external users (such as lenders, insurers or customers) will often value the involvement of a professional accountant in compiling the financial information.

Differentiating Factor	AUP Engagement	Compilation Engagement
Standard	ASRS 4400 (issued by AUASB)	APES 315 (issued by APESB)
Assurance level	None	None
Procedures	Procedures as agreed-upon in the terms of the engagement	Assisting management with the preparation of financial information
Reporting	Report on the agreed-upon procedures performed and the related findings (No assurance)	Report communicating the nature of the compilation engagement and the practitioner’s role and responsibilities. (No assurance)

**Other concepts – Attestation and direct engagements**

In an attestation engagement, the measurer or evaluator, who is not the assurance practitioner, measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information. The measurer or evaluator can be the responsible party or engaged by the responsible party.

In a direct engagement, the assurance practitioner measures or evaluates the underlying subject matter against the criteria and presents the resulting subject matter information as part of, or accompanying, the assurance report. The assurance practitioner’s conclusion in a direct engagement addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria. In some direct engagements, the assurance practitioner’s conclusion is, or is part of, the subject matter information.

Most assurance engagements are attestation engagements.





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