

(June 2014)

# *Framework for Assurance Engagements*

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



**Australian Government**

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**Auditing and Assurance Standards Board**

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## PREFACE

### Reasons for Issuing this Framework

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue the *Framework for Assurance Engagements* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 227B of the ASIC Act, the AUASB may formulate guidance on auditing and assurance matters. Accordingly, AUASB issues the *Framework for Assurance Engagements* (Framework) under its power described in Section 227B of the Act.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop guidance on auditing and assurance matters, and to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of auditing and assurance standards, and make appropriate consequential amendments to AUASB Pronouncements.

The amendments proposed to the *Framework for Assurance Engagements* arise from conforming amendments made by the IAASB to the *International Framework for Assurance Engagements* as a result of the revision of ISAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*.

The *Framework for Assurance Engagements* does not itself establish requirements for undertaking and reporting on audit, review or other assurance engagements. Accordingly, the AUASB has not issued the *Framework for Assurance Engagements* as an Auditing Standard for the purposes of the *Corporations Act 2001*.

### Main Proposals

The Framework provides a structure for the development of the Australian Auditing Standards, Standards on Review Engagements and Standards on Assurance Engagements (collectively referred to in this Framework as “AUASB Standards”). It describes the elements and objectives of an assurance engagement and identifies engagements to which the AUASB Standards apply.

The Framework also provides a frame of reference for:

1. Assurance practitioners; and
2. Others involved in assurance engagements, including the intended users of an assurance report and those engaging an assurance practitioner.

This Framework represents the Australian equivalent of the revised *International Framework for Assurance Engagements* reissued by the IAASB (December 2013) and will replace the current Framework issued by the AUASB in April 2010.

This Framework contains differences from the *International Framework for Assurance Engagements*, which have been made to reflect the requirements for Australian assurance engagements. In particular, the following changes have been made:

- Use of the term the “assurance practitioner” and the “lead assurance practitioner” in place of the “practitioner” and the “engagement partner” to accommodate a broad application of the AUASB Standards to professionals from other disciplines in addition to professional accountants.
- Reference to relevant ethical requirements contained in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and other Assurance Engagements*. This maintains consistency with other AUASB Standards.

**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates this *Framework for Assurance Engagements*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*.

## **Conformity with International Pronouncements**

This *Framework for Assurance Engagements* conforms with the *International Framework for Assurance Engagements*, issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Framework (and do not appear in the text of the equivalent *International Framework for Assurance Engagements*) are identified with the prefix “Aus”.

This Framework incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in the *International Framework for Assurance Engagements* in respect of “relevant ethical requirements”, have been included in another Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

# *Framework for Assurance Engagements*

## **Operative Date**

Aus 0.1 This Framework is operative from 1 January 2015 and from that date replaces the existing *Framework for Assurance Engagements* (April 2010).

## **Introduction**

1. This Framework is issued solely to facilitate understanding of the elements and objectives of an assurance engagement and the engagements to which Australian Auditing Standards, Australian Standards on Review Engagements and Australian Standards on Assurance Engagements (ASAEs) (hereinafter referred to as AUASB Assurance Standards) apply.
2. This Framework is not a Standard and, accordingly, does not establish any requirements (or basic principles or essential procedures) for the performance of audits, reviews, or other assurance engagements.<sup>1</sup> An assurance report cannot, therefore, claim that an engagement has been conducted in accordance with this Framework, but rather should refer to relevant AUASB Standards. AUASB Standards contain objectives, requirements, application and other explanatory material, introductory material and definitions that are consistent with this Framework, and are to be applied in audit, review, and other assurance engagements. Appendix 1 illustrates the ambit of pronouncements issued by the Auditing and Assurance Standards Board (AUASB) and their relationship to each other and to the relevant ethical requirements\* relating to assurance engagements.
3. This Framework provides a frame of reference for
  - (a) assurance practitioners;
  - (b) others involved with assurance engagements, including the intended users of an assurance report and those engaging an assurance practitioner (the “engaging party”); and
  - (c) the AUASB in its development of its pronouncements.
4. The following is an overview of this Framework:
  - *Introduction*: This Framework deals with assurance engagements performed by assurance practitioners.
  - *Description of assurance engagements*: This section describes assurance engagements and distinguishes direct engagements from attestation engagements, and reasonable assurance engagements from limited assurance engagements.
  - *Scope of the Framework*: This section distinguishes assurance engagements from other engagements, such as consulting engagements.
  - *Preconditions for an assurance engagement*: This section sets out preconditions for an assurance practitioner to accept an assurance engagement.
  - *Elements of an assurance engagement*: This section identifies and discusses five elements assurance engagements exhibit: a three party relationship, an underlying subject matter, criteria, evidence and an assurance report. It further explains important distinctions between reasonable assurance engagements and limited assurance engagements. This section also discusses, for example, the significant variation in the underlying subject matters of assurance engagements, the required characteristics of

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<sup>1</sup> See the Preface to 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*.

\* Relevant ethical requirements are defined in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

suitable criteria, the role of risk and materiality in assurance engagements, and how conclusions are expressed in reasonable assurance engagements and in limited assurance engagements.

- *Other matters:* This section discusses communication responsibilities other than the assurance practitioner's assurance report, documentation, and the implications of an assurance practitioner's *association* with an underlying subject matter or with subject matter information.

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

5. Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognised as being in the public interest and an integral part of high-quality assurance engagements. Such engagements are performed in accordance with AUASB Standards, which are premised on the basis that:
  - (a) The members of the engagement team and the engagement quality control reviewer (for those engagements where one has been appointed) are subject to the relevant ethical requirements<sup>\*</sup> related to assurance engagements; and
  - (b) The assurance practitioner performing the engagement is a member of a firm that is subject to ASQC 1,<sup>2</sup> regarding the firm's responsibility for its system of quality control.

### *Relevant Ethical Requirements related to Assurance Engagements*

6. Relevant ethical requirements<sup>#</sup> related to assurance engagements, establishes the following fundamental principles with which the assurance practitioner is required to comply:
  - (a) Integrity;
  - (b) Objectivity;
  - (c) Professional competence and due care;
  - (d) Confidentiality; and
  - (e) Professional behaviour.
7. Relevant ethical requirements<sup>†</sup> related to assurance engagements, also provide a conceptual framework for assurance practitioners to apply to identify threats to compliance with the fundamental principles, evaluate the significance of the threats identified, and apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.
8. Relevant ethical requirements related to assurance engagements, also describe how the conceptual framework applies in certain situations to assurance practitioners in public practice, including independence. The relevant ethical requirements define independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional scepticism.

### *ASQC 1*

9. ASQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for assurance engagements. Compliance with ASQC 1 requires, among other things, that the firm establish and maintain a system of quality control that includes policies and

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<sup>\*</sup> See ASA 102.

<sup>2</sup> See ASQC 1.

<sup>#</sup> See ASA 102.

<sup>†</sup> See ASA 102.



procedures addressing each of the following elements, and that it documents its policies and procedures and communicates them to the firm's personnel:

- (a) Leadership responsibilities for quality within the firm;
- (b) Relevant ethical requirements;
- (c) Acceptance and continuance of client relationships and specific engagements;
- (d) Human resources;
- (e) Engagement performance; and
- (f) Monitoring.

### **Description of Assurance Engagements**

10. An assurance engagement is an engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria.
11. The outcome of the measurement or evaluation of an underlying subject matter is the information that results from applying the criteria to the underlying subject matter. For example:
  - The financial statements (outcome) result from measuring an entity's financial position, financial performance and cash flows (underlying subject matter) by applying a financial reporting framework (criteria).
  - A statement about the effectiveness of internal control (outcome) results from evaluating the effectiveness of an entity's internal control process (underlying subject matter) by applying relevant criteria.
  - Entity-specific performance measures (outcome) result from measuring various aspects of performance (underlying subject matter) by applying relevant measurement methodologies (criteria).
  - A greenhouse gas statement (outcome) results from measuring an entity's greenhouse emissions (underlying subject matter) by applying recognition, measurement and presentation protocols (criteria).
  - A statement about compliance (outcome) results from evaluating the compliance of an entity (underlying subject matter) with, for example, law and regulation (criteria).

The term "subject matter information" is used to mean the outcome of the measurement or evaluation of an underlying subject matter against the criteria. It is the subject matter information about which the assurance practitioner gathers sufficient appropriate evidence as the basis for the assurance practitioner's conclusion.

### **Attestation Engagements and Direct Engagements**

12. In an attestation engagement, a party other than the assurance practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the assurance practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the assurance practitioner in the assurance report. The assurance practitioner's conclusion addresses whether the subject matter information is free from material misstatement (see also paragraph 85 of this Framework).
13. In a direct engagement, the assurance practitioner measures or evaluates the underlying subject matter against the criteria. In addition, the assurance practitioner applies assurance

skills and techniques to obtain sufficient appropriate evidence about the outcome of the measurement or evaluation of the underlying subject matter against the criteria. The assurance practitioner may obtain that evidence simultaneously with the measurement or evaluation of the underlying subject matter, but may also obtain it before or after such measurement or evaluation. In a direct engagement, the assurance practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria and is phrased in terms of the underlying subject matter and the criteria. In some direct engagements, the assurance practitioner's conclusion is, or is part of, the subject matter information (see also Appendix 2).

### Reasonable Assurance Engagements and Limited Assurance Engagements

14. In a reasonable assurance engagement, the assurance practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the assurance practitioner's conclusion. The assurance practitioner's conclusion is expressed in a form that conveys the assurance practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.
15. In a limited assurance engagement, the assurance practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the assurance practitioner's attention to cause the assurance practitioner to believe the subject matter information is materially misstated. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the assurance practitioner's professional judgement, meaningful. 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.
16. Across the range of all limited assurance engagements, what is meaningful assurance can vary from just above assurance that is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential to just below reasonable assurance. What is meaningful in a particular engagement represents a judgement within that range that depends on the engagement circumstances, including the information needs of intended users as a group, the criteria, and the underlying subject matter of the engagement. In some cases, the consequences to intended users of receiving an inappropriate conclusion may be so great that a reasonable assurance engagement is needed for the assurance practitioner to obtain assurance that is meaningful in the circumstances.

### Scope of the Framework

17. Not all engagements performed by assurance practitioners are assurance engagements. Other frequently performed engagements that are not consistent with the description in paragraph 10 of the Framework above (and therefore are not covered by this Framework) include:
  - Engagements covered by Australian Standards on Related Services (ASRSs), such as agreed-upon procedures.<sup>3</sup>
  - The preparation of tax returns where no assurance conclusion is expressed.
  - Consulting (or advisory) engagements,<sup>4</sup> such as management and tax consulting.

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<sup>3</sup> See ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*.

<sup>4</sup> In a consulting engagement, the assurance practitioner applies technical skills, education, observations, experiences, and knowledge of the consulting process. Consulting engagements involve 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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18. An assurance engagement may be part of a larger engagement, for example, when a business acquisition consulting engagement includes a requirement to obtain assurance regarding historical or prospective financial information. In such circumstances, this Framework is relevant only to the assurance portion of the engagement.
19. The following engagements, which may be consistent with the description in paragraph 10 of this Framework, are not considered assurance engagements in terms of this Framework:
  - (a) Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters; and
  - (b) Engagements that include professional opinions, views or wording 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**

20. 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, or with AUASB Standards.
  - Inappropriately using the words “assurance,” “audit” or “review.”
  - Including a statement that could reasonably be mistaken for a conclusion based on sufficient appropriate evidence that is designed to enhance the degree of confidence of intended users about the outcome of the measurement or evaluation of an underlying subject matter against criteria.
21. The assurance practitioner and the responsible party may agree to apply the principles of this Framework to an engagement when there are no intended users other than the responsible party but where all other requirements of relevant AUASB Standards are met. In such cases, the assurance practitioner's report includes a statement restricting the use of the report to the responsible party.

### **Preconditions for an Assurance Engagement**

22. The following preconditions for an assurance engagement are relevant when considering whether an assurance engagement is to be accepted or continued:
  - (a) The roles and responsibilities of the appropriate parties (that is, the responsible party, the measurer or evaluator, and the engaging party, as appropriate) are suitable in the circumstances; and
  - (b) The engagement exhibits all of the following characteristics:
    - (i) The underlying subject matter is appropriate;
    - (ii) The criteria that the assurance practitioner expects to be applied in the preparation of the subject matter information are suitable to the engagement

- circumstances, including that they exhibit the characteristics described in paragraph 44 of the Framework;
- (iii) The criteria that the assurance practitioner expects to be applied in the preparation of the subject matter information will be available to the intended users;
  - (iv) The assurance practitioner expects to be able to obtain the evidence needed to support the assurance practitioner's conclusion;
  - (v) The assurance practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
  - (vi) A rational purpose including, in the case of a limited assurance engagement, that the assurance practitioner expects to be able to obtain a meaningful level of assurance.
23. The underlying subject matters of different assurance engagements can vary greatly. Some underlying subject matters may require specialised skills and knowledge beyond those ordinarily possessed by an individual assurance practitioner. It is important, however, that the assurance practitioner be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities (see also paragraph 31 of the Framework).
24. When a potential engagement cannot be accepted as an assurance engagement, the engaging party may be able to identify a different engagement that will meet the needs of intended users. For example:
- (a) If the criteria that the assurance practitioner expects to be applied are not suitable, an assurance engagement that meets the other preconditions in paragraph 22 may still be performed if:
    - (i) The assurance practitioner can identify one or more aspects of the underlying subject matter for which those criteria are suitable. In such cases, the assurance practitioner could perform an assurance engagement with respect to that aspect of the underlying subject matter in its own right. In such cases, the assurance report may need to clarify that the report does not relate to the original underlying subject matter in its entirety; or
    - (ii) Alternative criteria suitable for the underlying subject matter can be selected or developed.
  - (b) The engaging party may request an engagement that is not an assurance engagement, such as a consulting or an agreed-upon procedures engagement.
25. Having been accepted, it is not appropriate to change an assurance engagement to a non-assurance engagement, or 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 engagement, may justify a request for a change in the engagement. If such a change is made, evidence that was obtained prior to the change is not disregarded. An inability to obtain sufficient appropriate evidence to form a reasonable assurance conclusion is not an acceptable reason to change from a reasonable assurance engagement to a limited assurance engagement.

### **Elements of an Assurance Engagement**

26. 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 underlying 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.

### **Three Party Relationship**

- 27. All assurance engagements have at least three separate parties: the assurance practitioner, the responsible party and the intended users. Depending on the engagement circumstances, there may also be a separate role of measurer or evaluator, or engaging party (see also Appendix 3).
- 28. The responsible party and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the executive board of that entity. The relationship between the responsible party and the intended users' needs to be viewed within the context of a specific engagement and may differ from more traditionally defined lines of responsibility. For example, an entity's senior management (an intended user) may engage 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*

- 29. The "assurance practitioner" is the individual(s) conducting the engagement (usually the lead assurance practitioner) or other members of the engagement team, or, as applicable, the firm by applying assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement.<sup>5</sup> In a direct engagement, the assurance practitioner both measures or evaluates the underlying subject matter against the criteria and applies assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the outcome of that measurement or evaluation is free from material misstatement.
- 30. [Deleted by the AUASB. Refer Aus 30.1].
- Aus 30.1 When an assurance practitioner chooses to represent compliance with an Assurance Standard, it is important to recognise that those Standards include requirements that reflect the premise in paragraph 5 of the Framework regarding relevant ethical requirements and ASQC 1.
- 31. An engagement is not accepted if preliminary knowledge of the engagement circumstances indicates that ethical requirements regarding competence will not be satisfied. In some cases, these requirements can be satisfied by the assurance practitioner using the work of an assurance practitioner's expert.
- 32. In addition, the assurance practitioner needs to be able to be sufficiently involved in the work of the assurance practitioner's expert and other assurance practitioners to an extent that is sufficient to accept responsibility for the assurance conclusion on the subject matter information, and to obtain the evidence necessary to conclude whether the work of that expert or other assurance practitioner is adequate for the assurance practitioner's purposes.
- 33. The assurance practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the assurance practitioner's use of the work of an assurance practitioner's expert or other assurance practitioners. Nonetheless, if the assurance

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<sup>5</sup> The term the "lead assurance practitioner" is referred to as the "engagement partner" in ASQC 1, Australian Auditing Standards, and Australian Standards on Review Engagements. This term and the term "firm" should be read as referring to their public sector equivalents where relevant.

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practitioner using the work of an assurance practitioner's expert, having followed the relevant AUASB Standards, concludes that the work of that expert is adequate for the assurance practitioner's purposes, the assurance practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

### ***Responsible Party***

34. The responsible party is the party responsible for the underlying subject matter. In an attestation engagement, the responsible party is often also the measurer or evaluator. The responsible party may or may not be the party that engages the assurance practitioner to perform the assurance engagement (the engaging party).

### ***Intended Users***

35. The intended users are the individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. The responsible party can be one of the intended users, but not the only one.
36. In some cases, there may be intended users other than those to whom the assurance report is addressed. 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.
37. Intended users or their representatives may be directly involved with the assurance practitioner and the responsible party (and the engaging party if different) in determining the requirements of the engagement. Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting factual findings based upon the procedures agreed with the engaging party and any appropriate third parties, rather than a conclusion):
- (a) The assurance practitioner is responsible for determining the nature, timing and extent of procedures; and
  - (b) The assurance practitioner may need to perform additional procedures if information comes to the assurance practitioner's attention that differs significantly from that on which the determination of planned procedures was based.
38. In some cases, intended users (for example, bankers and regulators) impose a requirement for, or request, the appropriate party(ies) to arrange for an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a specific purpose, the assurance report includes a statement alerting readers to this fact. In addition, the assurance practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the assurance report. 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 user or purpose does not itself indicate that a legal responsibility is owed by the assurance practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the circumstances of each case and the applicable law or regulation.

### ***Underlying Subject Matter***

39. The underlying subject matter of an assurance engagement can take many forms, such as:
- Historical financial performance or condition (for example, historical financial position, financial performance and cash flows) for which the subject matter information may be the recognition, measurement, presentation and disclosure represented in financial statements.

- Future financial performance or condition (for example, 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 forecast or projection.
- Non-financial performance or conditions (for example, performance of an entity) for which the subject matter information may be key indicators of efficiency and effectiveness.
- Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.
- Systems and processes (for example, an entity's internal control or IT system) for which the subject matter information may be a statement 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.

Appendix 4 of the Framework shows a categorisation of the range of possible underlying subject matters with some examples.

40. Different underlying 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 underlying subject matter can be measured or evaluated against criteria; and
  - (b) The persuasiveness of available evidence.

The assurance report may note characteristics that are of particular relevance to the intended users.

41. The appropriateness of an underlying subject matter is not affected by the level of assurance, that is, 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. An appropriate underlying subject matter is identifiable and capable of consistent measurement or evaluation against the identified 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, as appropriate.

### **Criteria**

42. Criteria are the benchmarks used to measure or evaluate the underlying subject matter. Criteria can be formal, for example in the preparation of financial statements, the criteria may be Australian Accounting Standards; when reporting on the operating effectiveness of internal controls, the criteria may be based on an established internal control framework or individual control objectives specifically designed for the purpose; and when reporting on compliance, the criteria may be the applicable law, regulation or contract. Examples of less formal criteria are an internally developed code of conduct or an agreed level of performance (such as the number of times a particular committee is expected to meet in a year).
43. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying 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 engagement circumstances. Even for the same underlying subject matter there can be different criteria, which will yield a different measurement or evaluation. For example, one of the criteria a measurer or evaluator might select as a measure of the underlying subject matter of customer satisfaction is the number of customer complaints resolved to the acknowledged satisfaction of

the customer, while another measurer or evaluator might select the number of repeat purchases in the three months following the initial purchase. Further, criteria may be suitable for a particular set of engagement circumstances, but may not be suitable for a different set of engagement circumstances. For example, reporting to governments or regulators may require the use of a particular set of criteria, but these criteria may not be suitable for a broader group of users.

44. Suitable criteria exhibit the following characteristics:
- (a) **Relevance:** Relevant criteria result in subject matter information that assists decision-making by the intended users.
  - (b) **Completeness:** Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
  - (c) **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.
  - (d) **Neutrality:** Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.
  - (e) **Understandability:** Understandable criteria result in subject matter information that can be understood by the intended users.
45. Vague descriptions of expectations or judgements of an individual's experiences do not constitute suitable criteria.
46. The relative importance of each of the above characteristics when assessing the suitability of criteria to a particular engagement is a matter of professional judgement. The suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa. Criteria may be prescribed by law or regulation, or issued by authorised or recognised bodies of experts that follow a transparent due process (established criteria). Other criteria may be specifically developed for the purpose of preparing the subject matter information in the particular circumstances of the engagement. Whether criteria are established or specifically developed affects the work needed to assess their suitability for a particular engagement, for example, in the absence of indications to the contrary, established criteria are presumed to be suitable if they are relevant to the intended users' information needs.
47. Criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated. 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.
  - (d) By general understanding, for example the criterion for measuring time in hours and minutes.
48. 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 because they are relevant only to a specific purpose (see also paragraph 38 of the Framework).



49. As part of the engagement, the assurance practitioner determines whether the criteria are suitable.

**Evidence**

50. Assurance engagements are planned and performed with an attitude of professional scepticism to obtain sufficient appropriate evidence in the context of the engagement about the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria. Professional judgement needs to be exercised in considering materiality, engagement risk, and the quantity and quality of available evidence when planning and performing the engagement, in particular when determining the nature, timing and extent of procedures.

*Professional Scepticism*

51. Professional scepticism is an attitude that includes being alert to, for example:
- (a) Evidence that is inconsistent with other evidence obtained;
  - (b) Information that calls into question the reliability of documents and responses to enquiries to be used as evidence;
  - (c) Circumstances that suggest the need for procedures in addition to those required by relevant AUASB Standards; and
  - (d) Conditions that may indicate likely misstatement.
52. Maintaining professional scepticism throughout the engagement is necessary to, for example, reduce the risk of:
- Overlooking unusual circumstances;
  - Overgeneralising when drawing conclusions from observations; and
  - Using inappropriate assumptions in determining the nature, timing and extent of procedures and evaluating the results thereof.
53. Professional scepticism is necessary to the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of documents and responses to enquiries. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances.
54. Unless the engagement involves assurance about whether documents are genuine, records and documents may be accepted as genuine unless the assurance practitioner has reason to believe the contrary. Nevertheless, the assurance practitioner considers the reliability of information to be used as evidence.
55. The assurance practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the assurance practitioner of the need to maintain professional scepticism.

*Professional Judgement*

56. Professional judgement is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and relevant AUASB Standards and the informed decisions required throughout the engagement cannot be made without the application of relevant training, knowledge and experience to the facts and circumstances. Professional judgement is necessary in particular regarding decisions about:
- Materiality and engagement risk.

- The nature, timing, and extent of procedures used to meet the requirements of relevant AUASB Standards and obtain evidence.
  - Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of relevant AUASB Standards. In particular, in the case of a limited assurance engagement, professional judgement is required in evaluating whether a meaningful level of assurance has been obtained.
  - In the case of a direct engagement, applying the criteria to the underlying subject matter, and if the assurance practitioner selects or develops the criteria, selecting or developing them. In the case of an attestation engagement, evaluating such judgements made by others.
  - The appropriate conclusions to draw based on the evidence obtained.
57. The distinguishing feature of the professional judgement expected of an assurance practitioner is that it is exercised by an assurance practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgements.
58. The exercise of professional judgement in any particular case is based on the facts and circumstances that are known by the assurance practitioner. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm assist the assurance practitioner in making informed and reasonable judgements.
59. Professional judgement can be evaluated based on whether the judgement reached reflects a competent application of assurance and measurement or evaluation principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the assurance practitioner up to the date of the assurance practitioner's assurance report.
60. Professional judgement needs to be exercised throughout the engagement. Professional judgement is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

*Sufficiency and Appropriateness of Evidence*

61. The sufficiency and appropriateness of evidence are interrelated. Sufficiency is the measure of the quantity of evidence. The quantity of evidence needed is affected by the risks of the subject matter information being materially misstated (the higher the risks, 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). Obtaining more evidence, however, may not compensate for its poor quality (see also paragraphs 81–82 of the Framework).
62. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability in providing support for the assurance practitioner's conclusion.
63. 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 subject to important exceptions. Even when evidence is obtained from external sources, circumstances may exist that could affect its reliability. For example, evidence obtained from an external source may not be reliable if the source is not knowledgeable or objective. 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 sources outside the appropriate party(ies).
  - Evidence that is generated internally is more reliable when the related controls are effective.

## *Framework for Assurance Engagements*

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- 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 ordinarily more reliable than a subsequent oral representation of what was discussed).
64. More assurance is ordinarily obtained 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 either corroborate other evidence or indicate that an individual item of evidence is not reliable. When evidence obtained from one source is inconsistent with that obtained from another, it is necessary to determine what additional procedures are needed to resolve the inconsistency.
65. 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 engagement; the assurance practitioner provides no conclusion about whether the process will continue to function in the specified manner in the future.
66. Whether sufficient appropriate evidence has been obtained on which to base the assurance practitioner's conclusion is a matter of professional judgement, which involves considering the relationship between the cost of obtaining evidence and the usefulness of the information obtained. 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*

67. Materiality is relevant when planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures, and when evaluating whether the subject matter information is free of misstatement. Professional judgements about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance, that is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.
68. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information. The assurance practitioner's consideration of materiality is a matter of professional judgement, and is affected by the assurance practitioner's perception of the common information needs of intended users as a group. Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.
69. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative and quantitative factors when considering materiality in a particular engagement is a matter for professional judgement.
70. Materiality relates to the information covered by the assurance practitioner's assurance report. Therefore, when the engagement covers some, but not all aspects of the subject matter information, materiality is considered in relation to only that portion of the subject matter information that is covered by the engagement.

### *Engagement Risk*

71. Subject matter information can fail to be properly expressed in the context of the underlying 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 measure or evaluate the underlying subject matter.
72. Engagement risk is the risk that the assurance practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated. Engagement risk does not refer to or include the assurance practitioner's business risks, such as loss from litigation, adverse publicity, or other events arising in connection with particular subject matter information.
73. Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore, "reasonable assurance" is less than absolute assurance, 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 professional judgement in gathering and evaluating evidence and forming conclusions based on that evidence.
  - In some cases, the characteristics of the underlying subject matter when measured or evaluated against the criteria.
74. In general, 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) Risks that the assurance practitioner does not directly influence, which in turn consist of:
- (i) The susceptibility of the subject matter information to a material misstatement before consideration of any related controls applied by the appropriate party(ies) (inherent risk); and
  - (ii) The risk that a material misstatement that occurs in the subject matter information will not be prevented, or detected and corrected, on a timely basis by the appropriate party(ies)'s internal control (control risk); and
- (b) Risks that the assurance practitioner does directly influence, which, in turn, consist of:
- (i) The risk that the procedures performed by the assurance practitioner will not detect a material misstatement (detection risk); and
  - (ii) In the case of a direct engagement, the risks associated with the assurance practitioner's measurement or evaluation of the underlying subject matter against the criteria (measurement or evaluation risk).
75. The degree to which each of these components is relevant to the engagement is affected by the engagement circumstances, in particular:
- The nature of the underlying subject matter and the subject matter information. For example, the concept of control risk may be more useful when the underlying subject matter relates to the preparation of information about an entity's performance than when it relates to information about the effectiveness of a control or the existence of a physical condition.
  - Whether a reasonable assurance or a limited assurance engagement is being performed. For example, in limited assurance engagements the assurance practitioner may often decide to obtain evidence by means other than testing of controls, in which

case consideration of control risk may be less relevant than in a reasonable assurance engagement on the same subject matter information.

- Whether it is a direct engagement or an attestation engagement. While the concept of control risk is relevant to attestation engagements, the broader concept of measurement or evaluation risk is more relevant to direct engagements.

The consideration of risks is a matter of professional judgement, rather than a matter capable of precise measurement.

*Nature, Timing and Extent of Procedures*

76. A combination of procedures is typically used to obtain either reasonable assurance or limited assurance. Procedures may include:

- Inspection;
- Observation;
- Confirmation;
- Re-calculation;
- Re-performance;
- Analytical procedures; and
- Enquiry.

The exact nature, timing and extent of procedures will vary from one engagement to the next. For many assurance engagements, infinite variations in procedures are possible in theory. In practice, however, these are difficult to communicate clearly and unambiguously.

77. Both reasonable assurance and limited assurance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic engagement process that includes obtaining an understanding of the underlying subject matter and other engagement circumstances.

78. A reasonable assurance engagement involves:

- (a) Based on an understanding of the underlying subject matter and other engagement circumstances, identifying and assessing the risks of material misstatement in the subject matter information;
- (b) Designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the assurance practitioner's conclusion; and
- (c) Evaluating the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempting to obtain further evidence.

79. The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are limited relative to a reasonable assurance engagement. An underlying subject matter-specific AUASB Standard may establish that, for example, sufficient appropriate evidence for a particular type of limited assurance engagement is obtained primarily through analytical procedures and enquiries. In the absence of underlying subject matter-specific AUASB Standards for other types of limited assurance engagements, however, the procedures for gathering sufficient appropriate evidence may or may not primarily be analytical procedures and enquiries and will vary with the circumstances of the engagement, in particular, the underlying subject matter, and the information needs of the intended users and the engaging party, including relevant time and cost constraints.

Determining the nature, timing and extent of procedures is a matter of professional judgement and will vary from one engagement to the next.

80. A limited assurance engagement involves:
- (a) Based on an understanding of the underlying subject matter and other engagement circumstances, identifying areas where a material misstatement of the subject matter information is likely to arise;
  - (b) Designing and performing procedures to address those areas and to obtain limited assurance to support the assurance practitioner's conclusion; and
  - (c) If the assurance practitioner becomes aware of a matter(s) that causes the assurance practitioner to believe the subject matter information may be materially misstated, designing and performing additional procedures to obtain further evidence.

*Quantity and Quality of Available Evidence*

81. The quantity or quality of available evidence is affected by:
- (a) The characteristics of the underlying subject matter and subject matter information. For example, less objective evidence might be expected when the subject matter information is future oriented rather than historical (see paragraph 40 of the Framework); and
  - (b) Other circumstances such as 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, inadequate information systems, or a restriction imposed by the responsible party.

Ordinarily, available evidence will be persuasive rather than conclusive.

82. An unmodified conclusion is not appropriate for either a reasonable assurance or a limited assurance engagement when:
- (a) Circumstances prevent the assurance practitioner from obtaining evidence required to reduce engagement risk to the appropriate level; or
  - (b) A party to the engagement imposes a restriction that prevents the assurance practitioner from obtaining evidence required to reduce engagement risk to the appropriate level.

**Assurance Report**

83. The assurance practitioner forms a conclusion on the basis of the evidence obtained, and provides a written report containing a clear expression of that assurance conclusion about the subject matter information. AUASB Standards establish basic elements for assurance reports.
84. In a reasonable assurance engagement, the assurance practitioner's conclusion is expressed in the positive form that conveys the assurance practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter.
85. Examples of conclusions expressed in a form appropriate for a reasonable assurance engagement include:
- When expressed in terms of the underlying subject matter and the applicable criteria, "In our opinion, the entity has complied, in all material respects, with XYZ law";
  - When expressed in terms of the subject matter information and the applicable criteria, "In our opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at [date] and its financial performance and its cash flows for the year then ended in accordance with XYZ framework"; or

- When expressed in terms of a statement made by the appropriate party, “In our opinion, the [appropriate party’s] statement that the entity has complied with XYZ law is, in all material respects, fairly stated,” or “In our opinion, the [appropriate party’s] statement that the key performance indicators are presented in accordance with XYZ criteria is, in all material respects, fairly stated.” In a direct engagement, the assurance practitioner’s conclusion is phrased in terms of the underlying subject matter and the criteria.
86. In a limited assurance engagement, the assurance practitioner’s conclusion is expressed in a form that conveys whether, based on the engagement performed, a matter(s) has come to the assurance practitioner’s attention to cause the assurance practitioner to believe the subject matter information is materially misstated, for example, “Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the entity has not complied, in all material respects, with XYZ law.”
87. The assurance practitioner may choose a “short form” or “long form” style of reporting to facilitate effective communication to the intended users. “Short-form” reports ordinarily include only the basic elements. “Long-form” reports include other information and explanations that are not intended to affect the assurance practitioner’s conclusion. As well as the basic elements, long-form reports may describe in detail the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the assurance practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. Whether to include any such information depends on its significance to the information needs of the intended users.
88. The assurance practitioner’s conclusion is clearly separated from information or explanations that are not intended to affect the assurance practitioner’s conclusion, including any Emphasis of Matter, Other Matter, findings related to particular aspects of the engagement, recommendations or additional information included in the assurance report. The wording used makes it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the assurance practitioner’s conclusion.
89. The assurance practitioner expresses a modified conclusion in the following circumstances:
- (a) When, in the assurance practitioner’s professional judgement, a scope limitation exists and the effect of the matter may be material. In such cases, the assurance practitioner expresses a qualified conclusion or a disclaimer of conclusion. In some cases, the assurance practitioner considers withdrawing from the engagement.
  - (b) When, in the assurance practitioner’s professional judgement, the subject matter information is materially misstated. In such cases, the assurance practitioner expresses a qualified conclusion or adverse conclusion. In those direct engagements where the subject matter information is the assurance practitioner’s conclusion, and the assurance practitioner concludes that some or all of the underlying subject matter does not, in all material respects, conform with the criteria, such a conclusion would also be considered to be qualified (or adverse as appropriate).
90. A qualified conclusion is expressed when the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion.
91. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the assurance practitioner discusses the matter with the appropriate party(ies), and determines:
- (a) Whether the matter can be resolved to the assurance practitioner’s satisfaction;
  - (b) Whether it is appropriate to continue with the engagement; and
  - (c) Whether and, if so, how to communicate the matter in the assurance report.

92. If it is discovered after the engagement has been accepted that some or all of the criteria are unsuitable or some or all of the underlying subject matter is not appropriate for an assurance engagement, the assurance practitioner considers withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the assurance practitioner continues with the engagement, the assurance practitioner expresses:
- (a) A qualified conclusion or adverse conclusion depending on how material and pervasive the matter is, when, in the assurance practitioner's professional judgement, the unsuitable criteria or inappropriate underlying subject matter is likely to mislead the intended users; or
  - (b) A qualified conclusion or a disclaimer of conclusion depending on, in the assurance practitioner's professional judgement, how material and pervasive the matter is, in other cases.

### **Other Matters**

#### *Other Communication Responsibilities*

93. The assurance practitioner considers whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the assurance practitioner that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others.

#### *Documentation*

94. Engagement documentation provides a record of the basis for the assurance report when it is prepared on a timely basis and is sufficient and appropriate to enable an experienced assurance practitioner, having no previous connection with the engagement, to understand:
- (a) The nature, timing and extent of the procedures performed to comply with relevant AUASB Standards and applicable legal and regulatory requirements;
  - (b) The results of the procedures performed, and the evidence obtained; and
  - (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.
95. Engagement documentation includes how the assurance practitioner addressed any inconsistency between information identified by the assurance practitioner and the assurance practitioner's final conclusion regarding a significant matter.

### **Inappropriate Use of the Assurance Practitioner's Name**

96. An assurance practitioner is associated with an underlying subject matter, or with the related subject matter information, when the assurance practitioner reports on information about that underlying subject matter or consents to the use of the assurance practitioner's name in a professional connection with that underlying subject matter, or with the related subject matter information. 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 an underlying subject matter, or with the related subject matter information, the assurance practitioner requires 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.

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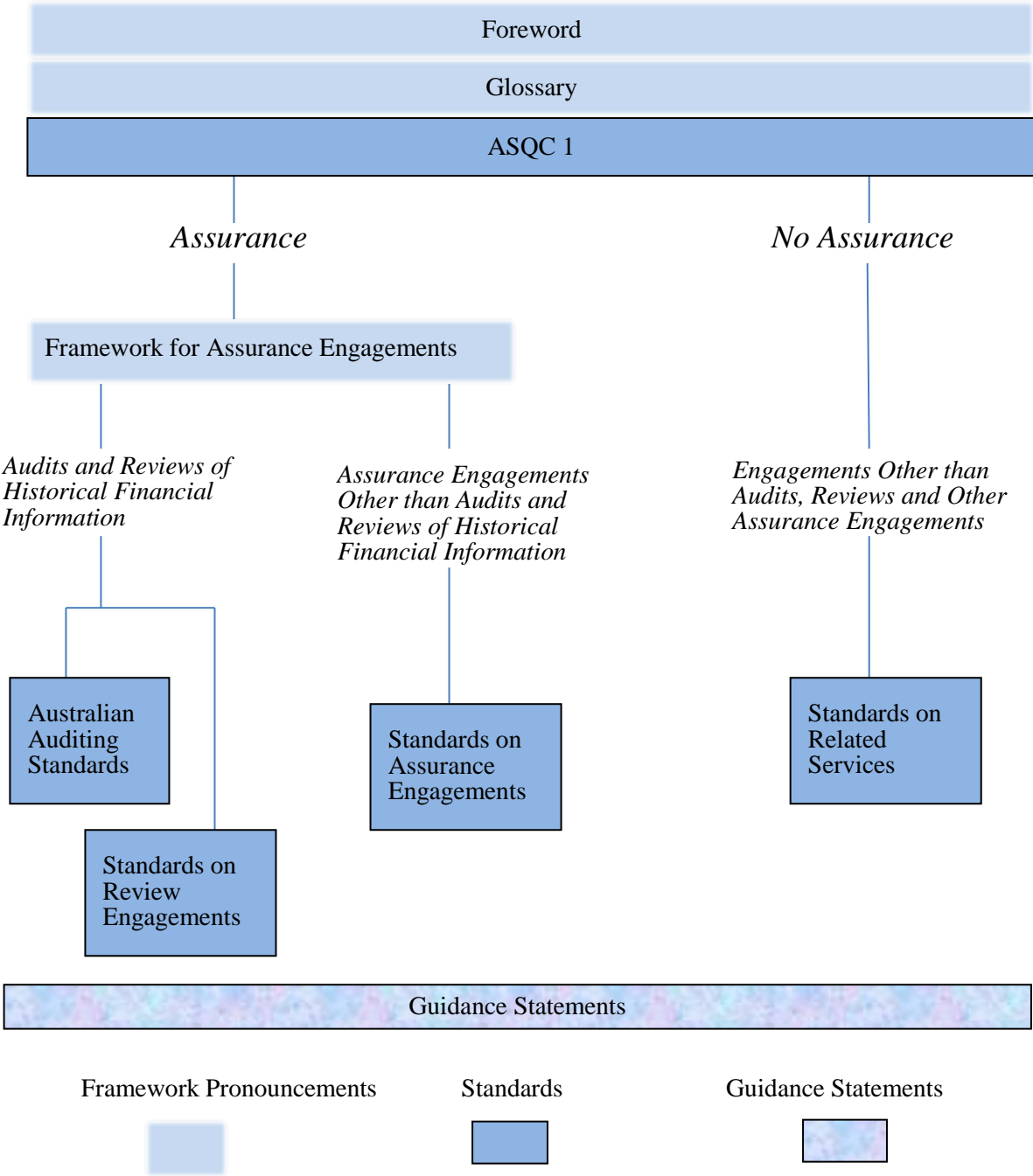


Appendix 1

(Ref: Para. 2)

(From AUASB Foreword)

Framework of Pronouncements issued by the AUASB

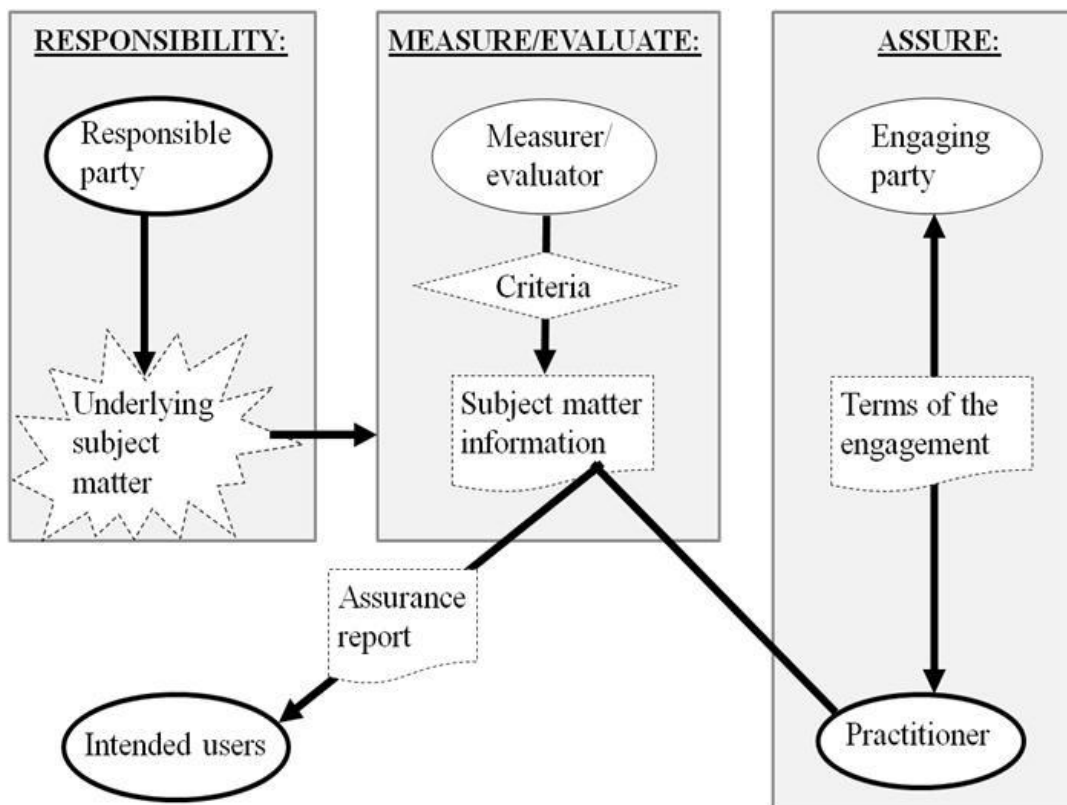


## **Attestation Engagements and Direct Engagements**

This Appendix outlines the differences between an attestation engagement and a direct engagement.

1. 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. Subject matter information can fail to be properly expressed in the context of the underlying subject matter and the criteria, and can therefore be misstated, potentially to a material extent. The role of the assurance practitioner in an attestation engagement is to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information, as prepared by the measurer or evaluator, is free from material misstatement.
2. 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. Depending on the underlying subject matter:
  - (a) The outcome of the measurement or evaluation in a direct engagement may be similar to a report or statement prepared by the measurer or evaluator in an attestation engagement. In other circumstances, however, the outcome, that is, the subject matter information, may be reflected in the description of the findings and basis for the assurance practitioner's conclusion in a long-form assurance report; and
  - (b) The assurance practitioner may use data collected or compiled by others. For example, the data may come from an information system maintained by the responsible party.
3. In addition to measuring or evaluating the underlying subject matter, in a direct engagement the assurance practitioner also applies assurance skills and techniques to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information is materially misstated. The assurance practitioner may obtain that evidence simultaneously with the measurement or evaluation of the underlying subject matter, but may also obtain it before or after such measurement or evaluation.
4. The value of a direct engagement lies in the combination of:
  - (a) The independence of the assurance practitioner from the underlying subject matter, the engaging party, intended users and the responsible party, notwithstanding that the assurance practitioner is not independent of the subject matter information because the assurance practitioner prepared the subject matter information; and
  - (b) The assurance skills and techniques applied when measuring or evaluating the underlying subject matter, which results in the accumulation of evidence that is of a similar quantity and quality as for an attestation engagement. It is this obtaining of sufficient appropriate evidence that distinguishes a direct engagement from a mere compilation. To illustrate this point, if an assurance practitioner were compiling an entity's greenhouse gas statement, the assurance practitioner would not, for example, test the calibration of monitoring devices. In a direct engagement, however, the assurance practitioner would, where relevant, either calibrate monitoring devices as part of the measurement process, or test the calibration of monitoring devices performed by others to the same extent as would be the case if the engagement were an attestation engagement.

### The Parties to an Assurance Engagement



1. All assurance engagements have at least three parties: the responsible party, the assurance practitioner, and the intended users. Depending on the engagement circumstances, there may also be a separate role of measurer or evaluator, or engaging party.
2. The above diagram illustrates how the following roles relate to an assurance engagement:
  - (a) The responsible party is responsible for the underlying subject matter.
  - (b) The measurer or evaluator uses the criteria to measure or evaluate the underlying subject matter resulting in the subject matter information.
  - (c) The engaging party agrees the terms of the engagement with the assurance practitioner.
  - (d) The assurance practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information.
  - (e) The intended users make decisions on the basis of the subject matter information. The intended users are the individual(s) or organisation(s), or group(s) thereof that the assurance practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed.

3. The following observations can be made about these roles:
- Every assurance engagement has at least a responsible party and intended users, in addition to the assurance practitioner.
  - The assurance practitioner cannot be the responsible party, the engaging party or an intended user.
  - In a direct engagement, the assurance practitioner is also the measurer or evaluator.
  - In an attestation engagement, the responsible party, or someone else, but not the assurance practitioner, can be the measurer or evaluator.
  - Where the assurance practitioner has measured or evaluated the underlying subject matter against the criteria, the engagement is a direct engagement. The character of that engagement cannot be changed to an attestation engagement by another party assuming responsibility for the measurement or evaluation, for example, by the responsible party attaching a statement to the subject matter information accepting responsibility for it.
  - The responsible party can be the engaging party.
  - In many attestation engagements the responsible party may also be the measurer or evaluator, and the engaging party. An example 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 different from the measurer or evaluator is when the assurance practitioner is engaged to perform an assurance engagement regarding a report prepared by a government organisation about a private company's sustainability practices.
  - In an attestation engagement, the measurer or evaluator ordinarily provides the assurance practitioner with a written representation about the subject matter information. In some cases, the assurance practitioner may not be able to obtain such a representation, for example, when the engaging party is not the measurer or evaluator.
  - The responsible party can be one of the intended users, but not the only one.
  - The responsible party, the measurer or evaluator, and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the executive board of that entity. The relationship between the responsible party, the measurer or evaluator, and the intended users' needs to be viewed within the context of a specific engagement and may differ from more traditionally defined lines of responsibility. For example, an entity's senior management (an intended user) may engage 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.
  - An engaging party that is not also the responsible party can be the intended user.
4. The assurance practitioner's conclusion may be phrased either in terms of:
- The underlying subject matter and the applicable criteria;
  - The subject matter information and the applicable criteria; or
  - A statement made by the appropriate party.

## *Framework for Assurance Engagements*

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5. The assurance practitioner and the responsible party may agree to apply the principles of the AUASB Standards to an engagement when there are no intended users other than the responsible party but where all other requirements of the AUASB Standards are met. In such cases, the assurance practitioner's report includes a statement restricting the use of the report to the responsible party.

### Categorisation of Underlying Subject Matters

The table below shows a categorisation of a range of possible underlying subject matters with some examples. For some categories no example is given because it is unlikely that assurance engagements with respect to information in these categories would be undertaken. The categorisation is not necessarily complete, the categories are not necessarily mutually exclusive, and some underlying subject matter or subject matter information may have components in more than one category, for example, integrated reporting and corporate social responsibility reporting will likely have both historical and future-oriented information and both financial and non-financial information. Also, in some cases, the examples are the subject matter information, in other cases they are the underlying subject matter or merely an indication of the type of question that information could assist with, whichever is more meaningful in the circumstances.

| Information about:      |  | Historical Information  | Future Oriented Information   |
|-------------------------|--|---|---|
| Financial               | Performance  | Financial Statements prepared in accordance with an acceptable financial reporting framework  | <ul style="list-style-type: none"> <li>Forecast/projected cash flow</li> </ul>  |
|                         | Position   |   | <ul style="list-style-type: none"> <li>Forecast/projected financial position</li> </ul>   |
| Non-Financial           | Performance/<br>Use of Resources/<br>Value for Money | <ul style="list-style-type: none"> <li>Greenhouse Gas Statement</li> <li>Sustainability Report</li> <li>KPIs</li> <li>Statement on effective use of resources</li> <li>Statement on Value for Money</li> <li>Corporate social responsibility reporting</li> </ul> | <ul style="list-style-type: none"> <li>Expected emissions reductions attributable to a new technology, or Greenhouse Gases to be captured by planting trees</li> <li>Statement that a proposed action will provide value for money</li> </ul> |
|                         | Condition  | <ul style="list-style-type: none"> <li>Description of a system/process as implemented at a point in time</li> <li>Physical characteristics, for example, the size of leased property</li> </ul>   |   |
| System/<br>Process      | Description  | <ul style="list-style-type: none"> <li>The description of a system of internal control</li> </ul>   |   |
|                         | Design   | <ul style="list-style-type: none"> <li>The design of controls at a service organisation</li> </ul>  | <ul style="list-style-type: none"> <li>The design of proposed controls for a forthcoming production process</li> </ul>  |
|                         | Operation/<br>Performance                            | <ul style="list-style-type: none"> <li>The operating effectiveness of procedures for hiring and training staff</li> </ul>   |   |
| Aspects of<br>Behaviour | Compliance   | <ul style="list-style-type: none"> <li>An entity’s compliance with e.g., loan covenants, or specific legal or regulatory requirements</li> </ul>  |   |
|                         | Human Behaviour                                      | <ul style="list-style-type: none"> <li>Evaluation of audit committee effectiveness</li> </ul>   |   |
|                         | Other  | <ul style="list-style-type: none"> <li>The fitness for purpose of a software package</li> </ul>   |   |