



AUDIT &  
ASSURANCE  
FACULTY

## An initiative from the ICAEW Audit and Assurance Faculty

Through the *re:Assurance* initiative, the ICAEW is promoting dialogue about assurance services: finding out where new services could strengthen markets and support economic confidence by making information flows more credible; asking how the International Framework for Assurance Engagements can be applied and developed; and answering demands for practical guidance to meet emerging market needs.

# re:Assurance



# Credible information is vital for confidence

Businesses, investors, governments, tax authorities, market regulators and other stakeholders need to be able to rely on credible information flows to make economic decisions and policy. Confidence diminishes when there are uncertainties around the integrity of information or its fitness for purpose.

Where businesses or stakeholders identify a particular need to build confidence in information and reinforce relationships of trust, external assurance can play a valuable role. An independent expert expressing assurance on information provides a strong signal that reports are trustworthy.

However, there is a lack of understanding of what is meant by assurance and the types of assurance that are or can be made available. This is clear from the expectation gaps that arise even in relation to the most long-established of assurance services, the audit of financial statements.

The International Auditing and Assurance Standards Board (IAASB) published the International Framework for Assurance Engagements in 2004. This sets out high-level principles applicable to various types of assurance services and might help to address some of these issues. But the practical application of this guidance still needs thorough testing.

There are important public interest issues to be addressed around the role of external assurance. That is why the dialogue and scrutiny promoted by this initiative are so important.

## Promoting constructive dialogue on external assurance

There is a wide range of information that could be (or already is) subject to some form of external assurance. However, assurance experts need appropriate models and frameworks to ensure that the assurance they are expressing is fit for its intended purpose and can be benchmarked against clear and well-founded criteria.

The *re:Assurance* initiative will link into international developments on assurance and engage interested parties in discussion of relevant issues including proposals for new assurance services and practical guidance published by the ICAEW Audit and Assurance Faculty. Through stakeholder engagement and feedback, the sharing of experience and the discussion of expectations and challenges, the initiative will map common ground. A proper understanding of business needs will enable the development of practical proposals and guidance on assurance services.

Because ICAEW members work throughout the economy, as users of information and as assurance experts, the ICAEW Audit and Assurance Faculty has the credentials to engage all stakeholders with valuable contributions to make in this area.

## Enhancing the credibility of information

The *re:Assurance* initiative complements the ICAEW *Information for Better Markets* campaign, which is about enhancing reported information, thereby helping to sustain economic confidence and promote healthy markets. *Information for markets and society*, which forms part of the campaign, highlights the need for people to know what information they can rely on. One way of helping them to form judgements on these matters is through assurance. It is hoped that dialogue will lead to greater knowledge and understanding of the role of assurance services and help to provide valuable input to international standard setters. The aim is to improve standards in response to market needs and enhance the nature and quality of assurance services.

## Getting started

First, the Faculty has published an issues paper on the financial reporting needs of audit-exempt companies. At the same time, the Faculty has issued guidance on a new assurance service for such companies based on the International Framework, a practical guide to the accounts-related services available to audit-exempt companies and a research report which looks at company views on the new ICAEW Assurance Service. Further information about this work is on the back of this publication, but it is just the beginning.

Second, we are planning a series of publications which set out to explain and discuss the International Framework for Assurance Engagements. It will seek to stimulate policy debate on practical implementation issues, to understand the assurance needs of stakeholders including business and other users of information and to identify areas where further development is needed.



A third stream of work is envisaged on the practical application of the Framework to additional new assurance services. We are looking at projects on narrative reporting and third party assurance focusing on relationships where services are outsourced. In this latter vein, we have recently issued Technical Release AAF 01/06 and ITF 01/07 which provide the latest guidance on reporting on internal controls of service organisations in specialist areas. Further details are provided on the back of this publication.

To support these work streams we are publishing guidance on the management of risk and liability on assurance services.

### Challenges ahead

There are differing expectations of the role that assurance can play in building business confidence. Some are sceptical, arguing that the existence of mutual trust is crucial to business relationships and is the vital factor in determining the extent of confidence in information. We agree. Where there is no trust there is unlikely to be a workable business relationship. External assurance cannot replace the need for trust but its role in nurturing trust is worth studying as is the role of external assurance in complementing the important functions fulfilled by internal control and internal audit in creating confidence in corporate governance and reporting.

On the other hand, some people may expect too much of external assurance and believe that those providing external assurance services are there primarily to identify and resolve problems within the business, for example, with systems and controls, and to offer general business advice. This, however, can pose threats to the independence that is essential to external assurance. Users of information, who would otherwise place reliance on assurance, may question the quality of that assurance where there are doubts about independence. There is a balance to be struck.

## Forthcoming topics

### Perspectives on assurance

A series of papers to stimulate dialogue with interested parties on the practical application and development of the International Framework for Assurance Engagements. The papers will be targeted to particular audiences; explaining the IAASB's Framework; identifying areas where there is a need for further work; stimulating policy debate; and considering the assurance needs of stakeholders such as business and other users of information.

### Assurance on narrative reporting

Markets need both quantitative and qualitative information. Where information is presented in non-financial terms, how can its credibility be reliably assessed? The paper will examine existing assurance practices in this area and will consider potential difficulties in meeting the expectations of users of such information.

### Third-party assurance

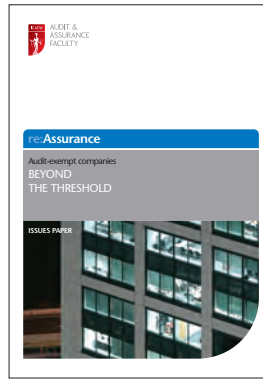
Business enterprises increasingly rely on external networks. To streamline operations or to obtain specialist skills, businesses often use the services of third parties. However, reliance on third parties can lead to uncertain relationships and risks related to cost, quality and compliance with contractual terms. This publication will consider the practical role of chartered accountants in providing assurance services to facilitate effective business relationships with third parties.

## Getting involved

*If you or anyone in your organisation is interested in following the progress of this initiative, please visit [www.icaew.com/assurance](http://www.icaew.com/assurance).*

*If you have experience, ideas or research to share please contact Jo Iwasaki at [jo.iwasaki@icaew.com](mailto:jo.iwasaki@icaew.com).*

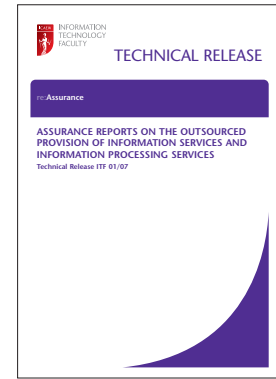
**Without credible information flows, people are unable to make economic decisions with confidence. Through the *re:Assurance* initiative, the ICAEW will explore the role that assurance services can play in promoting economic prosperity by reinforcing confidence in business reporting.**



### Audit-exempt companies

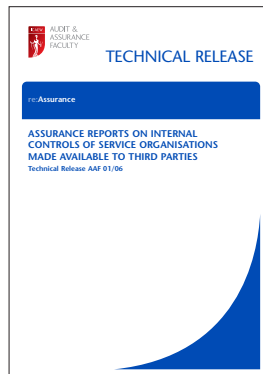
The ICAEW has published an issues paper, *Beyond the threshold*. It explores the future needs of audit-exempt companies and how chartered accountants can support those needs. It also sets out the new ICAEW Assurance Service in Interim Technical Release AAF 03/06, *The ICAEW Assurance Service on Unaudited Financial Statements*. Other papers in the series are:

- Practical guidance: *Chartered accountant services*; and
- Research report: *Company views on the ICAEW Assurance Service*.



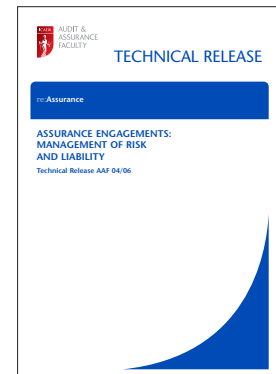
### Technical Release ITF 01/07, Assurance reports on the outsourced provision of information services and information processing services

Based on the framework set out in AAF 01/06, ITF 01/07 provides specific guidance to practitioners providing assurance services in information technology.



### Technical Release AAF 01/06, Assurance reports on internal controls of service organisations made available to third parties

Working in association with the National Association of Pension Funds, the ICAEW has updated existing guidance to move from a traditional approach of an 'agreed-upon procedures' engagement to the provision of an assurance report by a chartered accountant.



### Technical Release AAF 04/06, Assurance Engagements: Management of risk and liability

The guidance sets out matters to consider for practitioners in managing their risk and liability when undertaking assurance engagements.