



Better Government Series

Audit v other forms of assurance

Special Report

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Executive summary

Introduction

1. The public sector is responsible for the provision of public services and for the proper use of public money. Ultimately, it is the Secretaries of State, the Permanent Secretaries (Accounting and Accountable Officers), local government councillors, management of individual public sector organisations and those charged with governance that are responsible for the stewardship of public funds. It is these people who have the overall accountability for how public money is spent, and that it is spent in accordance with terms and conditions set by legislation and regulations. If public funds are misappropriated or misused in any way, it is these people who will ultimately be held to account.
2. Public audit plays an important part in safeguarding public money and for confirming that those responsible for handling public money are held accountable for its use. In addition to the audit of financial statements, there can be legislative requirements for reports as well as other requests for external scrutiny over how public money is spent. This scrutiny can be provided in a number of ways. More often than not, the different requests or requirements will require specific types of reports.
3. In ICAEW and its member firm dealings with the public sector, it has become clear that many civil servants regard 'audit' and 'other types of assurance' as interchangeable concepts. This is partly due to the lack of understanding that there are different types of engagements that they can request which provide different forms of assurance and that some engagements can provide information without providing assurance.
4. This paper therefore tries to explain the differences between the different forms of assurance and why it is important for those seeking assurance to understand these differences, the work that has been carried out and what it is that they are actually receiving, so they can make appropriate judgements and decisions about the use of public monies.

What is different about public sector audit?

5. The purpose of an external audit is to enhance the degree of confidence the intended users have in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements give a true and fair view in accordance with an applicable financial reporting framework.¹ This is true in the public and the private sector, although there are significant differences between the sectors in what the accounts are used for and the scope of the auditor's responsibilities.
6. In the private sector, the primary intended users of general purpose financial statements are existing and potential investors, lenders and other creditors. The accounts provide financial information about the reporting entity that is useful to them when making decisions about providing resources to the entity. This may include measures of profit, return on capital and cash flows.
7. In the public sector, reporting entities are primarily concerned with the delivery of public services rather than the generation of profit and the intended users are not existing or potential investors, lenders or other creditors, but the taxpayers who fund the services provided by these bodies. Intended users are therefore seeking assurance that those charged with the governance of public bodies are exercising proper stewardship over public funds, rather than using the outcome of the audit to support decisions about the provision of resources, although this can be the case if the public bodies are seeking external finance.

¹ ISA (UK) 200 – Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing (UK)

8. The wider scope of the auditor's reporting responsibilities in the public sector is reflected in the FRC's Practice Note 10 *Audit of financial statements of public sector bodies in the United Kingdom*. In addition to the audit of the financial statements, there may be a requirement for a:
- **regularity opinion** which requires the auditor to confirm that public money has been used only for the purposes intended; or
 - **value for money arrangements** which requires the auditor to conclude on whether they are satisfied that the body has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.
9. In addition, public sector auditors in the UK may have a range of other statutory responsibilities and associated powers, which include in certain circumstances:
- the ability to add a **report on the accounts** that aids in understanding the financial statements and, for example, provides commentary on the stewardship of public funds by the body being audited;
 - the power to issue **public interest reports** where, for example, a public body has misspent substantial amounts of money through poor governance or has acted outside its legal powers;
 - the ability to issue an **advisory notice** where it appears as if a public body is about to undertake an unlawful action;
 - the power to apply to the courts to **declare that an item of expenditure in the accounts is unlawful**; and
 - the ability to seek **judicial review** of a decision or failure to act that might impact on a body's financial statements.

Other forms of assurance

10. Public sector organisations often need to build confidence in other aspects of their business such as systems, data, processes, or information. They may also require confidence in third party organisations that they do business with or provide funds to for specific purposes. For this purpose, they often require independent accountants (often an external auditor) to provide the assurance.

What does this publication do?

11. This publication sets out a framework against which requests for external reports from external auditors or independent accountants can be assessed, explaining the differences between the types of report and the scope of work carried out; why those differences exist and why it is important to understand them. The framework will help public sector officials to consider their reporting requirements and ensure that the right report is obtained, that it has been derived from the right work that provides the right independent view.
12. While this publication is centred on the importance of understanding 'audit' and 'other types of assurance', it focuses solely on assurance and related engagements provided by external and independent auditors (independent accountants). It specifically avoids other engagements or work that they might undertake, such as due diligence. There is also another world of audit (that covers 'internal audit', 'quality audit', 'clinical audit', etc.) and assurance (that covers 'Gateway Reviews', etc.). While these share concepts of independence and due professional care, these services or engagements are not within the scope of this publication. As any auditor will know, what is within scope and outside scope is vitally important.



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In recognition of the particular features of the public sector, the Public Audit Forum has set out four main principles for public sector audit

- Independence of public sector auditors from the organisations being audited. Auditors must be independent, to avoid improper influence and allow work to be carried out freely. Independence encompasses the methods of appointment of auditors, the financial relationship between auditor and audited bodies, discretion in the amount of work necessary, the ability to follow up the implementation of recommendations, and the ability to have access to information necessary for audit work.
- The wider scope of public audit, covering the audit of financial statements, regularity, propriety and value for money. Public audit involves more than an opinion on accounts. It also covers issues such as regularity, propriety and value for money. In this way, it helps to contribute to corporate governance arrangements of public bodies and public trust in entities delivering public services.
- The ability of public auditors to make the results of their audits available to the public, to democratically-elected representatives and other key stakeholders. To be effective, there must be appropriate reporting arrangements, under which auditors report the results of their work both to the bodies responsible for funding and to the public.
- As public service delivery models change, public sector audit develops so it is relevant to the needs of those holding public bodies to account, the public and other stakeholders. Being responsive to changing environments and emerging risks, and communicating in a timely and effective way, shows that audit continues to be a credible source of independent and objective insight and guidance to support beneficial change in the public sector.

Clarifying expectations

13. The first steps in the audit versus other types of assurance debate are to identify:
 - **who** the users of the external report are; and
 - **the purpose** for which they want the report.
14. The users of any external report in the public sector will range from Parliament (who are the main users of the annual report and accounts), the Secretary of State, the Accounting or Accountable Officer for the relevant department or entity (this may be the Permanent Secretary), regulators, grant funders, partnership organisations, commercial organisations, internal management to members of the general public. Each will have their own needs, but their knowledge, understanding and appreciation of the subject matter may vary.
15. Users will need to provide clarity on what their need is (which may be different to what they are actually asking for). A discussion should then take place on how feasible it will be for independent accountants to meet this need. This should include consideration of:
 - a. any relevant current legislative requirements relating to the matter under consideration; and
 - b. the level of prescription that the department wants in relation to the scope, nature and extent of testing to be completed.
16. The first step to take into consideration is whether an independent engagement is really needed (and whether the benefit outweighs the cost) or can other sources be used. This might include some form of 'dependent' assurance (from management, an internal review body or some form of peer review).
17. A balance will need to be struck between the level of work required to support varying forms of report, the cost that this must inevitably entail and the risk of not getting it right.
18. There needs to be clarity about what sort of output the user is looking for ie, do they require a factual statement from which they can draw their own conclusion or an opinion requiring a degree of judgement. A factual statement will be exactly that and will provide details of the work carried out, but will require the user to draw their own conclusion. An opinion requires a level of judgement to be used in the work carried out and will provide a positive or negative conclusion. The nature of work to be performed and the wording within each type of engagement and subsequent report is therefore important when assessing needs.
19. It will be important to note that higher levels of assurance engagements will generally be more expensive than limited assurance or review engagements. Users should, therefore, consider the expected costs of particular forms of engagements in the context of the matter on which assurance is requested.
20. Ensuring that users obtain the most appropriate form of report for their circumstances usually depends on early and effective communication with independent accountants before the terms of the engagement and work to be carried out are finalised.
21. The next step is to identify:
 - **what** it is that they want a report on;
 - **the information** that will be required;
 - **by when**; and
 - **how they intend to rely on it.**
22. The primary responsibility therefore rests with the preparers of the scheme who request assurance reports to be clear about their requirements, outlining the basis of preparation and the level of accuracy/judgement that has been involved. Timelines for requesting these reports need to be realistic and should allow sufficient time for the independent accountants to carry out all the work they consider necessary for that engagement.

23. A first step is to understand whether the report is needed as a condition for a subsequent action (eg, further grant funding), or whether it will be used in a different way (eg, to grant an award). A report may also be used to provide assurance on past activities as part of an accountability framework without any direct action necessarily arising from its receipt.

Factors to consider in determining the type of engagement

- Who the users of the external report are.
- The purpose for which they want the work carried out.
- How they intend to rely on it.
- What it is that they want assurance on.
- The information that will be required.
- By when.

In addition

- Any pre-existing legislative requirements that specify the nature of the report.
- The level of prescription that the department wants in relation to the scope, nature and extent of testing to be completed.
- The amount of judgement that accountants are expected to apply.
- The level of consistency expected in the scope, nature and extent of testing for a specific scheme.
- The cost-benefit trade-off that may exist between the different types of engagements that are available.
- Any evidence or other assurance that may be obtained from other means (eg, the body's own internal auditors).
- Expectations and requirements of other stakeholders that may use the report.

Scope

24. Understanding exactly the scope of work undertaken by independent accountants and the form of report to be provided is extremely important. In particular, there is a need to be clear about what is 'outside' the scope of the work and therefore cannot be assumed to have been covered. The scope therefore determines the nature and extent of testing that will be required.
25. The discussion above will help to manage the expectations between what the user wants and/or requires and what it is possible for the independent accountants to provide. The higher the level of assurance required, the more work will need to be carried out by the independent accountants.

Types of engagement

26. In the public sector, a variety of assurance engagements are required and requested for different purposes. They will fall into the following categories.
- An audit engagement** – provides a reasonable² level of assurance with a true and fair opinion and, depending on which part of the public sector, may require a VFM conclusion and/or a regularity opinion. It requires compliance with the relevant Code of Audit Practice and, for work on financial statements, auditing standards involving auditor judgement, testing and other procedures as considered necessary by the auditor.
 - A reasonable assurance engagement** – requires auditor judgement, testing and procedures to provide 'reasonable assurance' in the form of a positively worded conclusion (without a true and fair opinion).
 - Limited assurance engagement** – a three-level approach:
 - i. requires the risk of a material misstatement to be reduced, but not to a low level;

² 'Reasonable' is defined here as: the risk of material misstatement has been reduced to an acceptably low level

ii. requires a more limited range of tests to be conducted relative to a reasonable assurance engagement and, therefore, less evidence to be collected and evaluated; and

iii. provides a negatively worded conclusion relative to the subject matter or topic.

d. Agreed-upon procedures – sets out an agreed scope of work and procedures undertaken; the findings from the procedures are reported in a factual statement, along with any exceptions identified from the work carried out, but with no opinion or judgement.

e. Review engagement – an examination of either general purpose financial statements or other historical financial statements, undertaken by independent accountants – requiring a negatively worded conclusion relative to the subject matter ie, nothing has come to their attention that causes them to believe that the financial statements do not give a true and fair view in all material respects (or have not been prepared) in accordance with the applicable financial reporting framework.

27. The key characteristics of these forms of engagements are explored in the following sections.

Audit

What is an audit?

28. An audit is a formal examination of financial statements carried out by an independent auditor who is external to the organisation being audited.

What constitutes a formal audit engagement?

29. A formal external audit engagement of an organisation's financial statements is usually characterised by:
- a legal or other requirement for an audit;
 - the audit being carried out by a professionally qualified and supervised independent accountants;
 - the audit being carried out in accordance with professional auditing standards;
 - the auditor complying with ethical standards; and
 - a formal audit report, which includes elements defined by statute and/or professional standards.

Who requires it?

30. An audit in the public sector is usually required by either specific legislation/regulations, set out in a Royal Charter, or in the constitution of the organisation.
31. In order to understand whether a formal audit is required, those responsible for the financial affairs of an organisation need to understand the organisation's governing legislation and other constitutional documents. In some circumstances, it may be necessary to take professional advice to confirm whether an audit is needed.

Who relies on it and what will they do with it?

32. In the public sector, because of the concept of public monies, there is usually a much wider use for the audit report. Ultimately, it is addressed to the audited body and is published for the general public (ie, the citizens) so that they can see how their money has been spent. In reality however, public sector financial statements are complex and are therefore rarely used by the general public. However, it is inevitable, particularly with public services, that a theme comes up and there may well be detailed scrutiny of disclosures, therefore auditing the detail is important. It is also important to differentiate between those who have a right to see the audit report and use it to understand how public money has been spent, and those who will rely on it for a specific purpose. If a party relies on an auditor's report, it is important to understand the purpose for which they will rely on it.

Sector	Who relies on it?
Central government	<ul style="list-style-type: none">• Parliament• the Secretary of State, the Accounting or Accountable Officer, management and those charged with governance• National Audit Office (NAO) for the Whole of Government Accounts (WGA)
Local government	<ul style="list-style-type: none">• councillors, management and those charged with governance• local electors, who have a right of inspection and right to challenge items of expenditure in the accounts• The NAO will also reply on the individual audit reports for the WGA
Health	<ul style="list-style-type: none">• Accounting Officer or Accountable Officer for the Department of Health, the National Health Service Executive and the NAO will also rely on the individual audit reports for the group accounts and WGA• management and those charged with governance

Scope

33. In the public sector, audits are usually carried out in accordance with a specific framework for the sector. International Standards on Auditing (ISAs), adapted in the UK and Ireland by the Financial Reporting Council (FRC), are used for most public sector audits. The use of these standards is usually encompassed in a specific framework eg, in local government and health, there is a Code of Audit Practice which sets the framework. The Code usually references the ISAs, ethical standards and relevant practice notes. The Code provides independent auditors with guidance on the nature and scope of audit work.
34. An audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the organisation's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by management; and the overall presentation of the financial statements.

The audit report or opinion

35. Once the audit has been completed, the auditor will evaluate the audit evidence and issue a formal written report that provides the auditor's opinion on the financial statements. The format of audit reports may sometimes be prescribed by a regulation or related guidance, but usually follows professional standards.
36. In some cases, the auditor may provide additional information in the audit report about, for example, an organisation's financial position, operating performance and an evaluation of financial status, together with recommendations for improvements in its internal controls. These are termed 'long form' audit reports and are starting to be used for NHS Foundation Trusts.
37. The audit report is specifically addressed to those for whom the audit is undertaken. While there may be other individuals or organisations who are interested in the audited financial statements, the auditor's direct responsibility is to those to whom the audit report is addressed.
38. Where the auditor has not identified any material uncorrected errors or other problems in the accounts, the audit report will usually state that the accounts give a 'true and fair view' of the organisation's financial position in the reporting period. However, if the auditor has identified material uncorrected misstatements, or is unable to obtain sufficient evidence over whether or not there are material misstatements, then the audit report will be modified. Such a modification may take one of the following forms:
 - **qualified opinion:** financial statements give a true and fair view except for the matter giving rise to the modification, where, for example, the issue is limited to a particular area in the accounts;
 - **adverse opinion:** financial statements do not give a true and fair view, where the misstatement is pervasive across the financial statements rather than limited to a particular area; or
 - **disclaimed opinion:** the auditor has been unable to obtain sufficient appropriate evidence and does not express an opinion on the financial statements.

Suggested further references

FRC's Practice Note 10, Audit of financial statements of public sector bodies in the United Kingdom

Auditor General for Wales – Code of Audit Practice

Audit Scotland – Code of Audit Practice

National Audit Office – Code of Practice for the Audit of Local Public Bodies

Northern Ireland Audit Office – Code of Audit Practice

Assurance

What is assurance?

39. Assurance is defined in the Oxford Dictionary as: ‘A positive declaration intended to give confidence; a promise.’ In the context of professional services, ‘assurance’ is the expression of an opinion designed to enhance the users’ confidence in the subject matter evaluated against criteria.

What constitutes an assurance engagement?

40. ‘Assurance engagement’ means an engagement in which independent accountants express a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.³
41. Applicable guidance⁴ identifies five elements that assurance engagements performed by independent accountants exhibit:
- a three-party relationship – independent accountants, a responsible party and the intended user of the assurance;
 - a subject matter – ie, what is being assessed and reported upon;
 - criteria – what the subject matter is being assessed against;
 - evidence; and
 - an assurance report.
42. As noted above, typically, assurance engagements involve three separate parties: independent accountants, a responsible party and the intended users. The engagement focuses on certain subject matter, and/or subject matter information. The ‘responsible party’ is responsible for the subject matter. Generally, the ‘intended user’ of the assurance engagement opinion can be an external body, for example a central government body issuing a grant, or a central regulator, but can alternatively be a different (usually higher) level of management or governance within a single entity (for example a report issued to governors within an NHS Foundation Trust).
43. However, the independent accountants’ and the responsible party may agree that there are no intended users other than the responsible party. In such cases, the independent accountants’ report includes a statement restricting the use of the report to the responsible party.

What are the different types of assurance engagements?

44. An assurance engagement typically involves reporting to a third party. There are two possible levels of assurance.

LEVEL OF ASSURANCE

	REASONABLE	LIMITED
Scope of work	Accountants determine the exact scope of work, nature and extent of procedures required to support their conclusion	The scope of work and procedures are agreed between the parties and the accountants then follow the agreed procedures
Type of opinion given	Positive opinion	Negative opinion
Illustration of opinion	‘... in all material respects the subject matter is properly prepared and presented’	‘... based on the procedures performed, nothing has come to our attention to cause us to believe that the subject matter is not fairly stated’

³ International Framework For Assurance Engagements: issued by the IAASB

⁴ International Framework For Assurance Engagements: issued by the IAASB

45. In terms of the independent accountant’s approach, the relevant standards are explicit in differentiating between the approaches relevant to the two levels of assurance. Key differences include⁵:

LEVEL OF ASSURANCE

	REASONABLE	LIMITED
Obtaining an understanding of the underlying subject matter and other engagement circumstances	<p>The independent accountants should:</p> <ul style="list-style-type: none"> • assess the risks of material misstatement in the subject matter information; and • obtain an understanding of internal control over the preparation of the subject matter information relevant to the engagement, including evaluating the design of those controls relevant to the engagement and determining whether they have been implemented by performing procedures (ie, not just by enquiry). 	<p>The independent accountants should:</p> <ul style="list-style-type: none"> • identify areas where a material misstatement of the subject matter information is likely to arise; and • consider the process used to prepare the subject matter information.
Operation of controls	<p>Procedures shall include obtaining sufficient appropriate evidence as to the operating effectiveness of relevant controls over the subject matter information when:</p> <ul style="list-style-type: none"> • the practitioners’ assessment of the risks of material misstatement includes an expectation that controls are operating effectively; or • procedures other than testing of controls cannot alone provide sufficient appropriate evidence. 	<p>No specific requirement, unless the operation of internal controls is the subject of the limited assurance</p>

46. Materiality applied to assurance engagements is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation or measurement of the subject matter, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the independent accountants’ judgement.
47. In an engagement to report on controls at a service organisation, the concept of materiality relates to the system being reported on, not the financial statements of user entities. Further, materiality with respect to the fair presentation of the service organisation’s description of its system, and with respect to the design of controls, includes primarily the consideration of qualitative factors, for example:
- whether the description includes the significant aspects of processing significant transactions;
 - whether the description omits or distorts relevant information; and
 - the ability of controls, as designed, to provide reasonable assurance that control objectives would be achieved.

⁵ See paragraphs 46 to 49 of ISAE 3000 (Revised)

48. Materiality with respect to the independent accountants' opinion on the operating effectiveness of controls includes the consideration of both quantitative and qualitative factors, such as both the tolerable and observed rates of deviation, and the nature and cause of any observed deviation.

Relevant standards that support assurance engagements

49. The overriding framework applicable is the International Framework for Assurance Engagements issued by the IAASB.
50. The Framework defines and describes the elements and objectives of various assurance assignments, and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply. It provides a frame of reference for independent accountants and others involved with assurance engagements, such as those engaging independent accountants and the intended users of an assurance report.⁶
51. The relevant assurance standards are listed at the end of this section. They envisage scenarios where a form of assurance engagement is required by law or regulation which uses a specific layout or wording of the assurance report that does not comply with the requirements of ISAE 3000 (Revised), specifically relating to the required contents of the assurance report.⁷ In those scenarios the assurance report should not refer to ISAE 3000 (Revised), or to other ISAEs if they are relevant.
52. For completeness, ISAEs applicable to 'assurance engagements' are not relevant to audit work on regularity at clinical commissioning groups and central government bodies which is carried out as part of the statutory audit. Auditors of these bodies should instead consider the guidance in Practice Note 10 when carrying out work on regularity.
53. However, ISAEs may be relevant to other assurance engagements which include a requirement to consider regularity and there are practical examples (see below) where this is the case.
54. Firms that undertake assurance engagements must ensure that they comply with International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*.

When might they apply?

55. Relevant standards⁸ define 'appropriate subject matter' for an assurance engagement as:
- identifiable, and capable of consistent evaluation or measurement against the identified criteria; and
 - such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.
56. Areas where an independent assurance conclusion might be requested include quantitative and qualitative matters such as:
- quantitative information including data and performance measures as well as financial data;
 - operational controls in outsourced operations;
 - compliance with customer care charters;
 - corporate governance performance;
 - compliance with regulatory frameworks;
 - narrative information;
 - internal controls;
 - human resource performance indicators;
 - social values reporting;
 - certain grant claims and reports to regulators; and
 - compliance with contractual agreements.

6 International Framework for Assurance Engagements, issued by the IAASB

7 Paragraphs 69 and 71 of ISAE 3000 (Revised)

8 ISAE 3000 (Revised)

57. Practical public sector examples include:

Reasonable assurance engagements

- Project reviews (for example of government-funded schemes locally and internationally).
- Service auditor reports relating to outsourced operations (for example, core financial and payroll systems).
- Tripartite grant scheme certifications.

Examples

1. The independent accountants' report is provided for the use of auditors of NHS bodies which use the business processes operated by the NHS Shared Business Services body. The report is prepared in compliance with ISAE 3402, *Assurance Reports on Controls at a Service Organisation*, and provides reasonable assurance in respect of the description, design and operation of the controls for a specified financial year (which is a 'Type II' report, as against a 'Type I' report which focuses on a specific point in time).
2. From 2013/14 a tripartite agreement in respect of the Teachers' Pension Scheme (TPS) was reached between upper tier local authorities, auditors and Teachers' Pensions (TP) (who administer the scheme on behalf of the Department for Education (DfE)). The agreement specified a number of tests that needed to be undertaken and an agreed format of opinion wording. This was not wholly compliant with the requirements of ISAE 3000 and so did not make reference to that standard.

Limited assurance engagements

- Review of Quality Accounts, including specified performance indicators, for NHS Trusts and NHS Foundation Trusts.
- Assurance regime applicable to smaller local government bodies (non-principal authorities).
- Regularity assurance framework for college corporations.
- Academies.
- Sustainability reports.

Examples

1. Auditors of NHS Trusts and NHS Foundation Trusts have been required by NHS England and Monitor in 2015/16 respectively to undertake limited assurance reviews of Quality Accounts prepared by the Trusts. The scope of the review included consideration of the content of the Quality Accounts and compliance against statutory requirements and the direct testing of specified performance indicators included within the Quality Account. The scope of the work on performance indicators was specified, with limitations on the extent of testing undertaken in support of the opinion issued. The format of the opinion provides detail of the specific sources of evidence considered as part of the review process, and makes reference to ISAE 3000 (Revised).
2. Non-principal local authorities (including town and parish councils) are subject to a limited assurance regime. The programme of work specified is limited in nature and does not constitute a full 'audit' of the accounts prepared by the bodies.
3. The Skills Funding Agency (SFA) and the Education Funding Agency (EFA) have put in place a limited assurance regime for reporting on regularity for college corporations. The work is linked to the audit of the financial statements (the framework makes explicit reference to audit work compliant with ISAs that inform the understanding of the 'reporting accountant' (the independent accountants)). The work is informed by a standard self-assessment questionnaire completed by the college.

Reference to existing guidance

ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*⁹

ISAE 3402, *Assurance Reports on Controls at a Service Organisation*

ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

ISAE 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

ICAEW Assurance Sourcebook: A Guide To Assurance Services

ICAEW Sustainability Assurance: Your Choice

ICAEW Technical Release AAF 01/10: Framework Document for Accountants' Reports on Grant Claims

⁹ ISAE 3000 (Revised) is effective for assurance engagements when the assurance report is dated on or after 15 December 2015

Agreed-upon procedures

What is an agreed-upon procedures engagement?

58. An agreed-upon procedures (AUP) engagement is aimed at instructing independent accountants to carry out procedures to which the independent accountants and the entity and any appropriate third parties have agreed and for the independent accountants to report on factual findings. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.
59. The report does not express a conclusion nor does it express assurance. Therefore AUP is not an assurance engagement and provides less comfort to the engaging party than a reasonable or limited assurance engagement.
60. In an AUP engagement there needs to be clear agreement between the engaging parties of the following, which should be set out in the terms of engagement.
- The nature of the engagement should be specified including the fact that the procedures performed will not constitute an assurance engagement and that accordingly no assurance conclusion will be expressed.
 - The stated purpose for the engagement.
 - Identification of the information to which the agreed-upon procedures will be applied.
 - The nature, timing and extent of the specific procedures to be applied.
 - The anticipated form of the report of factual findings.
 - Any limitations on the use and distribution of the report of factual findings.
61. The application of an AUP engagement can be wide and varied. Any engagement where the independent accountants agree to perform a set of procedures and report on the factual findings can constitute an AUP engagement.
62. The procedures need to be clearly articulated describing their nature, timing and extent, including specific reference, where applicable, to the identity of documents and records to be read, individuals to be contacted and parties from whom confirmations will be obtained.
63. An AUP engagement may involve the independent accountants performing certain procedures concerning individual items of financial data (for example, accounts payable, accounts receivable, purchases from related parties), a financial statement (for example, a balance sheet) or even a complete set of financial statements.

Who requires and relies on it?

64. All bodies within the public sector may at some point need to commission an AUP engagement where they only require factual statements.
- Grant funders may specify that grant recipients engage qualified independent accountants to perform a specified set of procedures on the expenditure related to the grant.
 - A service provider may need to obtain independent confirmation over specific areas of work including the related information in financial statements.
 - An organisation may need to obtain further evidence in relation to specific financial activities such as debt recovery.
 - An organisation may have experienced difficulties in specific areas, such as weaknesses in the accuracy and completeness of a fixed asset register, and may require a statement to demonstrate that these have been addressed.

65. Typical examples include the following.

1. A local authority needing to validate to DCLG the Housing Revenue Account debt to be written off as part of its transfer of housing stock. Procedures agreed with the independent accountants included:
 - a. checking that each individual loan on a specified schedule had been allocated to the HRA pool arrangement on a specified date; and
 - b. agreeing details of individual loans to external confirmations received from the PWLB.
2. A social housing provider seeking comfort on the accuracy and completeness of service charge accounts under the terms of its property lease. The procedures agreed with the auditor included:
 - a. checking whether the figures in the service charge accounts were extracted correctly from the accounting records maintained by or on behalf of the landlord;
 - b. checking a sample of entries in the accounting records to support receipts; and
 - c. checking whether the balance of service charge monies for each property agreed or reconciled to the bank statement for the account in which the funds were held.
3. A local authority requiring independent comfort on a financial return it has made to an NHS commissioner to deliver specific services in accordance with a signed funding agreement. The procedures agreed with the independent accountants included:
 - a. checking that the agreement is signed and appropriately dated;
 - b. checking that the financial return is complete and approved by an appropriate officer;
 - c. checking that the arithmetic is accurate;
 - d. agreeing the financial return to the authority's accounting records; and
 - e. agreeing staff costs stated in the financial return to the authority's payroll records.

66. Users of AUP engagements assess the procedures and factual findings reported and draw their own conclusions.

Scope

67. The scope of the AUP engagement will depend on the procedures agreed by the independent accountants and the engaging party. Both parties need to be clear that an AUP engagement is not an audit that follows ISAs.

Form of report

68. The form of the factual report of findings should include the following.

- Title.
- Addressee (ordinarily the body which engaged the independent accountants to perform the agreed-upon procedures).
- Identification of specific financial or non-financial information to which the agreed-upon procedures have been applied.
- A statement that the procedures performed were those agreed upon with the recipient.
- A statement that the engagement was performed in accordance with the International Standard on Related Services applicable to AUP engagements, or with relevant national standards or practices.
- When relevant, a statement that the independent accountants are not independent of the entity.
- Identification of the purpose for which the agreed-upon procedures were performed.
- A listing of the specific procedures performed.
- A description of the independent accountants' factual findings including sufficient details of errors and exceptions found.
- A statement that the procedures performed do not constitute either an audit or a review and, as such, no assurance is expressed.

- A statement that had the independent accountants performed additional procedures, an audit or a review, other matters might have come to light that would have been reported.
- A statement that the report is restricted to those parties that have agreed to the procedures to be performed.

Relevant standards that support AUP engagements

69. AUP engagements are supported by International Standard on Related Services (ISRS) 4400.

As outlined in paragraphs 61 to 63 above, the application of AUP engagements is wide and varied in the public sector.

Reference to existing guidance

ICAEW Assurance Options

ISRS 4400 Engagements to perform agreed upon procedures regarding financial information

Review engagements

What is a review engagement?

70. A review engagement is an examination of historical financial statements undertaken by independent accountants who are not the auditors of the reporting entity. These statements are usually general purpose financial statements, although reviews may also be carried out on other historical financial information. The term 'review engagements' also covers the review of interim financial statements undertaken by the entity's auditor.
71. A review engagement is a form of a limited assurance engagement. The International Framework for Assurance Engagements defines an assurance engagement as 'an engagement in which independent accountants express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party'. In a limited assurance engagement the independent accountants convey a level of assurance that is proportional to the level of the independent accountants' procedures given the characteristics of the subject matter and other relevant engagement circumstances described in the assurance report.
72. The independent accountants' objective in a review engagement is to express a conclusion as to whether anything has come to the independent accountants' attention that causes him to believe that the financial statements do not give a true and fair view in all material respects (or have not been prepared) in accordance with the applicable financial reporting framework.

Who requires review engagements?

73. There is a general trend across the world for higher levels of audit exemptions for small and medium-sized entities (SMEs). This means that an audit is not required. Some SMEs have therefore started to request review engagements to enhance the stakeholders' (including shareholders, potential investors, providers of loan finance, suppliers, tax authorities and employees) confidence that the entity's financial statements have been prepared in accordance with an applicable financial reporting framework. The limited and less costly nature of a review engagement compared to an audit provides SMEs with an attractive alternative when a statutory audit is not required.

Scope

74. In a review engagement, the independent accountants' responsibilities (and the resulting report) differ significantly from those of an audit engagement. The objective of an audit is to obtain reasonable assurance to support a positive opinion as to whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework. The review engagement report is limited to a conclusion on whether the independent accountants have become aware of any matter that causes him to believe that the financial statements do not give a true and fair view in all material respects (or have not been prepared) in accordance with the applicable financial reporting framework.
75. Although some of the enquiries and procedures performed in a review engagement may be similar to procedures performed in an audit engagement, they do not have the effect of converting the engagement into an audit. Since a review engagement consists primarily of enquiry and analytical procedures, there is a greater risk that material misstatements caused by fraud or error will not be detected as they would in an audit. The level of confidence that users could reasonably be expected to derive from the independent accountants' report on a review engagement is therefore less than that which may be derived from an audit.

Steps in performing a review engagement

76. The steps involved in carrying out a review engagement are similar to those involved in carrying out an audit engagement. However, the nature and extent of testing are both different to and less than in an audit; which is why the level of assurance provided is lower. The independent accountants must determine the acceptability of the engagement and client relationship and set out the scope of the engagement in an engagement letter. Independent accountants must have a sufficient understanding of the entity to identify areas in the financial statements where material misstatements are likely to arise and design review procedures accordingly.

They should make enquiries of management and others within the entity involved in financial reporting and accounting matters, apply analytical procedures, and design and perform any additional procedures that may be required. Finally, they must evaluate the sufficiency and appropriateness of the evidence obtained and form a conclusion and report on the financial statements.

Form of report

77. The form of reporting on review engagements depends upon whether the financial statements are prepared using a fair presentation framework or a compliance framework. In the UK, financial statements are prepared using a fair presentation framework and in expressing an unmodified conclusion the independent accountants state that 'Based on our review, nothing has come to our attention that causes us to believe that the financial statements do not give a true and fair view in all material respects in accordance with the applicable financial reporting framework'.
78. In reporting under a compliance framework the independent accountants report that 'Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework'.
79. The independent accountants' report also includes a description of the nature of the review engagement as context for the readers of the report, so they can understand the independent accountants' conclusion.
80. If the independent accountants believe the financial statements may be materially misstated, they should design and perform additional procedures to be able to conclude on the financial statements. Where limited assurance cannot be obtained and a qualified conclusion in the independent accountants' report is insufficient, the independent accountants either disclaim their conclusion or, where appropriate, withdraws from the engagement if this is possible under applicable laws or regulations.

Relevant standards that support review engagements

81. Independent accountants engaged to perform a review of historical financial statements should comply with the *International Standard on Review Engagements (ISRE) 2400 'Engagements to review financial statements'*. This standard was issued in September 2012 and came into effect for periods ending on or after 31 December 2013. ISRE 2400 is also applied, adapted as necessary, to reviews of other historical financial information.
82. ISRE 2400 does not address reviews performed by the independent accountants of either the entity's financial statements or reviews of interim financial information. The latter are dealt with by *ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'*.
83. Limited assurance engagements other than reviews of historical financial information are performed under *ISAE 3000 (Revised) 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'*.

Application to the public sector in the UK

84. Generally, application to the UK public sector is limited. The rules relating to audit exemptions for small and medium-sized entities either do not apply to companies owned by public sector bodies, or are not applied because the size of the public sector parent is taken into account when determining whether or not the entity is subject to audit.

NHS Charitable Funds/NHS Funds Held on Trust

Some NHS organisations have subsidiary charities which receive and administer legacies and donations for the benefit of the parent NHS organisation. These charities account under the Charities SORP. Where the thresholds for statutory audit exemptions set out in the SORP are met by such charities, an independent examination may be undertaken instead of an audit. This examination is often undertaken by the statutory auditor of the parent NHS organisation although it is not an audit.

Reference to existing guidance

Guide to Review Engagements – International Federation of Accountants (IFAC) – 2013a

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