

BENEATH THE SURFACE



The word assurance can be used to describe a host of advisory services, as can be seen with ICAEW's *Assurance Sourcebook* (bit.ly/1g46gfv) and by the IFAC International Framework for Assurance Engagements (bit.ly/1fmUBo). Even the range of topics that can be addressed by the International Standard on Assurance Engagements (ISAE) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (bit.ly/1tfzKiO) is almost endless - and there are different levels and forms of assurance too.

In Search of Meaning (*Audit & Beyond*, March 2015, page 8) addressed the differences between reasonable and limited levels of assurance. This follow-up article deals with two underlying bases ISAE 3000 offers for providing assurance: attestation and direct.

DIFFERENCES OF OPINION

The structure of attestation reporting is similar to that used in audit. Management present the subject matter and related information (their claims or assertions relating to the subject matter). Either the management or an independent evaluator conducts work that supports the subject

Many different topics and focuses can be assured using attestation and direct reporting, explains **John Ward**

matter information. The practitioner's opinion concludes on whether the management claims (the subject matter information) are free from misstatement.

In a direct assurance engagement, the practitioner measures or evaluates the underlying subject matter against the criteria. The practitioner also presents the subject matter information in (or attached to) their report.

The practitioner's conclusion addresses the outcome of the measurement as opposed to the management assertion regarding the subject matter.

Direct reporting is generally disliked by the profession due to the perceived risk of confusion among users regarding primary responsibility for the subject

matter. Although it is used when required by legislation or regulation, in practice it is possible to organise other engagements as attestation.

A third variation is to consider the nature of the subject matter itself and the related assurance.

ICAEW's *Assurance Sourcebook* cites five types of assurance that can be related back to differing levels of management responsibility: data and outcome; operating effectiveness; systems design; fair descriptions; and comprehensive reports.

There is also a sixth option that is used occasionally: methodology.

PURPOSE AND VALUE

Each type of assurance has its own purpose and value

due to the nature of the underlying subject matter and needs of the users.

Methodology

Clients may need to determine their own methodology for compiling and reporting on a subject matter, for example developing a set of key performance indicators (KPIs) to demonstrate business performance. This may require one methodology for identifying the relevant KPIs and a separate set of methodologies to calculate each KPI.

To provide such assurance, the practitioner needs to evaluate the methodology itself as if it comprised the criteria (see *Audit & Beyond*, February 2015, page 6) and conduct sufficient tests to demonstrate the application of the methodology - validating the adequacy of the methodology as well as confirming its application.

Data or outcome

Assurance over data and outcomes has strong parallels with the underlying principles of financial audit because it typically deals with numbers.

Fieldwork may, or may not, require testing of control design and operation. That is a matter of engagement strategy and what is the most cost effective way of achieving

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whatever testing is performed, evidence is needed to support the management assertion.

Systems design

Accountants and auditors are used to evaluating the design of systems as part of, or an extension to, audit activity. Design evaluation can be performed by reference to the client’s business or management objectives for the system and the related control objectives designed to manage the key risks. Long form reporting of such analyses is also a well-practised art.

The focus of evidence collection is around the design of the controls to meet the control objectives or risks (set by management) and sufficient evidence of their operation to validate understanding of the design. This type of work is described in faculty technical releases (see bit.ly/OyMxht).

Operating effectiveness

Operating effectiveness is the natural next stage after design evaluation and involves a range of tests to validate the effectiveness of controls in action. Effectiveness can be evaluated either at a point in time or for a period. For outsourced services and where reliance is sought by a third party, it is often the case that evidence needs to be collected to cover a period.

The focus of evidence

collection is determined in part by whether this is at a point in time or for a period.

In both cases evidence of the effective operation of controls is required and some substantive testing of controls is needed.

Fair descriptions

Descriptions might be assured when they describe management arrangements such as governance or risk management. Are they accurately stated? Are they complete? Is something missing?

The assurance engagement is likely to focus on reading the client’s description and comparing it with a walk-through of the relevant processes adopted, searching for ambiguities and ensuring that the description contains all significant information in relation to its operation. Consideration will also need to

be given to the risk of imbalance or bias.

Comprehensive (whole) reports

Lastly there is the option of assuring a comprehensive, or whole, report. The profession already does this with a set of financial statements, indicating whether or not they present a true and fair view. So why not offer assurance over a whole report that contains all the elements described in the headings above? This will inevitably include both narrative and data.

The conduct of such an engagement begs a number of questions:

- How do you ensure that the report is complete?
- How do you decide what needs to be assured and differentiate that from other material that does not need to be evidenced?
- How do you evaluate

narrative that includes a variety of statements and representations by management?

Such questions mean assurance over a whole report is a subject in itself. Rather than skimping on the description, this will be the subject of a future article.

OPPORTUNITY

ISAE 3000 opens up an enormous field of assurance opportunity by enabling both a considerable breadth of topics to be addressed and by permitting a wide range of reporting applications to be used depending upon the clients’ and the users’ needs. ■



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Management activity	SUBJECT MATTER ASPECT				
	Data and outcome	Operating effectiveness	Design	Fair description	Comprehensive report
Monitoring process & control effectiveness	✓	✓	✓	✓	✓
Process and control implementation	X	✓	✓	✓	
Establishing strategy and objectives	X	X	✓	✓	
Tone at the top	X	X	X	✓	