ICAEW AND ASSURANCE SERVICES

All types of business, public and voluntary bodies, investors, governments, tax authorities, market regulators and their stakeholders need to be able to rely on credible information flows to make decisions. Confidence suffers when there is uncertainty about the integrity of information or its fitness for purpose.

ICAEW’s Audit and Assurance Faculty is a leading authority on external audit and other assurance services. It is recognised internationally by members, professional bodies and others as a source of expertise on issues related to audit and assurance.

Through the re:Assurance initiative, the ICAEW Audit and Assurance Faculty is promoting dialogue about external assurance: finding out where new assurance services could strengthen markets and enhance 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 business needs.

Further information on the re:Assurance initiative, the current work programme and how to get involved is available at icaew.com/assurance or telephone Henry Irving on +44 (0)20 7920 8450
ASSURANCE SOURCEBOOK
A GUIDE TO ASSURANCE SERVICES

RE: ASSURANCE INITIATIVE
The credibility of financial and other information provided by businesses and other organisations to investors and other stakeholders is central to the ability of those users to make rational decisions regarding investment, regulation, contractual relationships and other matters. An important role therefore exists for professional accountants to provide independent assurance of information prepared by one party for the use of others.

Professional accountants provide a range of services to provide people with confidence in information. Audit of financial information is widely understood and underpinned by statute, regulation and standards. The role of other assurance services has become more widely appreciated in recent years but is perhaps not as well understood by all stakeholders. Assurance as a service has evolved significantly over this period and continues to do so. Assurance has established a valuable role in relation to the systems, processes, data and information that flow through the business environment.

There is a distinct benefit of assurance to society in building trust, supporting business relationships and helping our capital markets to function effectively. The demand for assurance will continue to grow and professional accountants will continue to innovate and respond to meet that demand.

International standard-setters have issued a number of standards and other guidance specifying requirements and application guidance for non-audit assurance services relating to financial and other information; including standards relating to specific types of non-financial information such as greenhouse gas statements and internal controls at service organisations. In addition to this international material, ICAEW's Audit and Assurance Faculty has issued technical releases and guidance related to assurance, and regulatory guidance is issued by the Financial Reporting Council and others.

The Assurance Sourcebook seeks to provide practitioners with a resource to understand the range of assurance services available for clients and the broad array of guidance issued by different bodies, as well as to provide practical assistance in developing such services so as to best serve the needs of prepares of information and users. In doing so the Assurance Sourcebook draws on the experience of ICAEW members to identify good practice and both technical and practical innovations, and illustrates these with case studies.

ICAEW has been at the forefront of developing guidance relating to assurance services for a number of years and has issued a range of technical and practical publications to assist practitioners and disseminate understanding of assurance (see icaew.com/assurance). The Audit and Assurance Faculty intends to review and update the Assurance Sourcebook regularly to reflect the changing assurance landscape including new standards, initiatives and developments. Accordingly, we welcome feedback to help ensure the Assurance Sourcebook supports the needs of practitioners and can be used as a basis to encourage a wider understanding of the important role of assurance services.

I am grateful to the faculty's volunteers for sharing their experience and giving their time to produce and review the material contained in this publication.

Charles Bowman
Chairman, Audit and Assurance Faculty
July 2012
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1. INTRODUCTION

1.1 Value of assurance

Where organisations or their stakeholders identify a specific need to build confidence in data, processes, or information, a professional accountant can play a valuable role. Assurance reporting is one such role: an independent professional accountant with relevant experience applying the highest standards to examine data, processes, or information and expressing an assurance conclusion provides a strong signal of reliability. Assurance reporting has been seen in the audit of financial statements for centuries. In recent years, it has also been successfully applied to areas such as internal controls and sustainability information.

There are other benefits that assurance reporting can bring. For example, the assurance reporting process can help management enhance the quality of its internal systems and controls. An integral part of assurance reporting is the evaluation of assertions made by management over the subject matter. Referring to the assurance conclusion and any related recommendations resulting from the work of the professional accountant, management is able to improve the quality of systems and controls, and the information derived from them.

Lastly, the focus on user needs in the assurance reporting process highlights the importance of understanding and addressing stakeholder needs. As the credibility of information can only be judged from a user’s point of view, management needs to consider or involve relevant stakeholders with a view to understanding their information needs. This process influences how organisations behave in their environment and engage with their stakeholders.

1.2 Challenges to assurance reporting

The development of assurance reporting on matters other than financial information was initially slow and limited. One of the reasons was that the constituent elements of an assurance engagement referred to by the international standard setter such as subject matter information were not well understood initially. Some thought that the standard setter’s principles-based framework was not very practical. Others expressed concerns that the principles in the framework were too high level and that they would benefit from more detailed guidance.

Despite these perceptions, the concepts in the assurance framework are not new as they have always been present in the context of financial statement audit. It is true that the assurance framework does not provide prescriptive detail. Applying the concepts in the assurance framework to a new area or subject matter may therefore seem daunting due to the lack of detailed guidance such as we have with financial statements. However, because the assurance framework is based on robust principles, it enables a wide range of flexibly defined assurance engagements in practice. This allows each assurance engagement to be tailored to address the specific client and user needs.

1.3 Addressing expectations

If certain types of engagement are performed repeatedly, users will expect consolidation of knowledge that exists in practice. To address such expectations, standard-setters and professional organisations develop suitably detailed standards and guidance based on the principles-based framework. Typical examples are ICAEW developing technical guidance for assurance reporting on internal controls of service organisations and the International Auditing and Assurance Standards Board (IAASB), the international standard-setter on assurance and auditing, developing an assurance standard on greenhouse gas emissions.

ICAEW aims to identify and develop relevant guidance as and when it is required in response to market demand and to facilitate good practice being shared in new areas. Our work in this area includes assurance engagement guidance on unaudited financial statements (2006), internal
controls (2006, extended in 2009 and 2010), stewardship (2011) and business relationships (2007) and a publication on existing practices and issues related to assurance reporting on non-financial information (2007). These publications are intended not only to assist professional accountants to gain insight into emerging areas but also help maintain confidence in the quality and consistency of assurance services in new areas among reporting organisations and the users of information.

ICAEW is committed to facilitate better understanding of the IAA’s assurance framework. We believe that the framework ensures necessary consistency in practice while allowing sufficient flexibility for professional accountants to structure a new service in response to emerging demand. We believe that a principles-based framework is preferable to detailed, prescriptive standards. Our series of publications in 2007 entitled Perspectives on assurance was guided by that position and explains the key concepts of assurance in plain terms to different audiences; specifically businesses, professional accountants and policy makers.

We have also produced explanatory materials on certain subject matters for the benefit of reporting organisations and users of information, such as Chartered accountant services: A Practical guide (on financial information, 2006) and Sustainability assurance: Your choice (2010). These publications are intended to explain the nature of assurance engagements in specific contexts to assist reporting organisations and users of information choose the right service, including but not restricted to, assurance engagements from the accountancy profession. The sources of these publications are available in Appendix 2.

The Assurance Sourcebook is developed in this context.

1.4 Features of the Assurance Sourcebook

Section 2, The need for assurance, discusses the importance of credible information and the role of professional services. The section is written with a broad range of readers in mind: management, investors, government and other policy makers, or anyone else interested in different ways to enhance the credibility of information produced today.

As assurance reporting expanded into new areas, we became increasingly aware that there were often more appropriate alternatives that could be offered in some situations. These include: agreed-upon procedures; compilation; and advisory and consulting services. However, we realise that the differences between these services might not be sufficiently clear to stakeholders, and we therefore also explain how these services differ. Choosing the right service can save management time and costs in meeting their objectives; for example, management might only need specific procedures to be performed by an external expert to address a particular risk and users may be quite capable of interpreting the outcomes of procedures themselves. In these circumstances, assurance reporting on the subject may be time consuming and disproportionate relative to other services available to address users’ needs.

Sections 3 and 4 contain practical content that is useful for practitioners and management involved in assurance engagements. Section 3, Structuring assurance engagements, introduces five key elements of assurance engagements, as defined in the international framework set out by the IAASB. The section then considers these elements in the context of management and practitioners working together to structure a specific engagement. Section 4, Delivering assurance engagements, considers assurance engagements in stages: accepting, planning and performing an assurance engagement and reporting the assurance conclusion. Three case studies are provided to illustrate the application of the material in these sections. Guidance in these sections is often applicable to other types of professional services that are discussed in Section 2.

Technical discussion in the Assurance Sourcebook is intended to be consistent with existing ICAEW technical releases on assurance reporting, such as AAF 01/06 Assurance reports on internal controls of service organisations made available to third parties and AAF 03/06 The ICAEW Assurance Service on unaudited financial statements that remain effective.

1.5 The role of professional accountants

It is a legitimate to ask why professional accountants should be involved in addressing a broad range of information needs; after all, accountants are trained primarily in financial information and its assurance.
Professional accountants use professional judgement when performing assurance services, underpinned by ethical standards and applied with the relevant knowledge for specific situations. In performing their work it is essential that the professional accountant understands and assesses the reliability of information and has the strength of character to challenge management if concerns arise. Where appropriate, the professional accountant should bring specialist knowledge from outside their immediate team to deal with technical matters.

Professional accountants undertake a rigorous regime of training and examinations, and gain a broad range of practical experience, which enables them to apply sound judgement to deal with a wide range of information that becomes the subject of assurance. This gives them the ability to apply themselves objectively, and with the use of professional scepticism, to areas or topics that require challenge, supplemented by an independent mind-set. They are bound by a strict code of ethics and are subject to regular assessment by regulators. Their commitment to professional competence and due care requires them to offer high-quality services to businesses and to act in the public interest. We therefore believe the accountancy profession can credibly support the development of assurance services.

The primary benefit of assurance engagements is to enhance the credibility of information for users. By carrying out assurance engagements with independence and expertise and to high standards, professional accountants provide assurance opinions that bring credibility to the information with which those opinions are associated.

The structure of the Assurance Sourcebook

<table>
<thead>
<tr>
<th>Section</th>
<th>Subject</th>
<th>Primary audience</th>
<th>Secondary audience</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>Overview of the Assurance Sourcebook</td>
<td>Management (as responsible party for the subject matter), users of assurance reports, assurance practitioners</td>
<td>Other management, regulators and others</td>
</tr>
<tr>
<td>2. The need for assurance</td>
<td>Demand for information and types of services practitioners provide</td>
<td>Assurance practitioners and management</td>
<td>Users of assurance reports, regulators and others</td>
</tr>
<tr>
<td>3. Structuring assurance engagements</td>
<td>Elements of assurance</td>
<td>Assurance practitioners and management</td>
<td>Users of assurance reports, regulators and others</td>
</tr>
<tr>
<td>4. Delivering assurance engagements</td>
<td>Assurance engagements considered in stages</td>
<td>Assurance practitioners and management</td>
<td>Users of assurance reports, regulators and others</td>
</tr>
</tbody>
</table>

Note that the term ‘management’ can have different meanings and interpretations depending on its use and context. Within the Assurance Sourcebook the term ‘management’ is generally associated with the party responsible for the subject matter on which assurance is sought. However, depending on the context, ‘management’ may also refer to overall management of the entity to which the subject matter relates who, in certain cases, may also be the users of the assurance report. An example would be assurance reporting on key performance indicators published by a corporate entity where management is used to refer to those responsible for calculating and presenting the key performance indicators while the overall management of the entity may benefit from the assurance report in terms of using the information to develop remuneration policies, and those charged with governance (ie, the board or the audit committee) are the primary users seeking assurance.
2. THE NEED FOR ASSURANCE

Who are the users of assurance services? Which types of services provided by professional accountants best address their needs?
2. THE NEED FOR ASSURANCE

2.1 Introduction

Owners, management, investors, governments, regulators and other stakeholders need to rely on the successful conduct of business activities, sound internal processes and the production of credible information. These operational and reporting processes enable users to make decisions and develop policies. Confidence diminishes when there are uncertainties around the integrity of information or of underlying operational processes.

There is a range of subject matters over which these parties might require assurance which can be captured under three broad categories:

- data – extracted or calculated volumes, values or other items;
- processes and controls – a series of organised activities designed to meet defined objectives; and
- reporting – a whole or part of a written report which may contain a combination of data, design of processes and narrative, including any assertions the reporting organisation has made.

Where organisations or their stakeholders identify a particular need to build confidence in data, processes, or related information, involving an independent practitioner may play a valuable role. Assurance reporting is one such role: an independent practitioner with relevant experience expressing an assurance conclusion provides a strong signal of credibility.

This section provides an overview of the need for assurance and considers various types of services that practitioners may offer to help meet that need depending on circumstances.

2.2 Drivers: new technology, regulation, business change, changing expectations and demands

Over the last few years the demand for assurance has increased. Lenders and shareholders require assurance over the safe, profitable and sustainable growth of their businesses. Management seeks assurance on its own operations, increasingly in a consistent and measurable form, to monitor progress either in relation to an area of risk such as information security or on an area of performance. In the course of mergers and acquisitions, for example, assurance is sought over the acquired businesses. Management seeks assurance to ensure that it is meeting regulatory obligations that may be specific to the sector, such as oil and gas or financial services, or related to broader regulatory regimes. In the public and not-for-profit sectors management may want assurance to maintain the confidence of fund providers and the public as well as for management’s own purposes. In other words, assurance is sought to inform management and other users and enable them to make sound judgements and decisions.

The wider supply chain of the organisation can also benefit from assurance. Service organisations seek to assure their customers that they have adopted and implemented appropriate processes and controls over the operations outsourced to them and major customers seek such assurance. Organisations seek assurance that their distribution partners are acting in line with contractual agreements and broader expectations. Suppliers to organisations are increasingly asked to provide assurance over the ability to service their customers’ needs within a framework of control that covers a wide spectrum of areas such as anti-bribery, ethical trade and financial health.

Recent initiatives, such as the UK Stewardship Code from the Financial Reporting Council (FRC), encourage management to obtain assurance against a set of principles, rather than being required to simply tick boxes or be subjected to inspection. This approach aids management in interpreting good practice, embedding this in the organisation and developing the
2.3 Determining the organisation’s needs and defining the service

‘Assurance’ is a term commonly used to refer to any type of work that provides confidence to the recipient. Much of what practitioners do for their clients constitutes ‘assurance’ of this kind in one form or another. For example, a Chief Finance Officer may initially want assurance over the internal controls in a key subsidiary. What the CFO is actually seeking may be objective evaluation by the practitioner of the controls as designed and operated. Practitioners can meet such a request in several different ways (see 2.4). It is therefore important that practitioners and their clients explore together the nature of the organisation’s needs, because the language used may unnecessarily confuse the situation.

In many instances, an organisation’s needs may be very specific. For example, management may be required by law or regulation to obtain an independent assurance report, relating to the organisation’s compliance with a particular law or regulation. In other instances, the organisation’s management may wish a practitioner to perform an assurance engagement on a particular aspect of the entity’s activities which is not required by law or regulation. In the latter case, dialogue between the practitioner and management will be essential to understand management’s needs and to identify which service offering is the most appropriate to address this need. An experienced professional will be able to translate the needs of the management into an appropriately structured assurance or other engagement from a technical perspective.

In order to provide the most appropriate service, the practitioner might ask questions such as:

• Is a formal report from a practitioner required? Would it be an assurance report or would another form of report be acceptable?
• Are there relevant legal or regulatory drivers for the assurance report?
• What issue or topic is management concerned about and why?
• How can professional involvement add to the credibility of information related to the matter?
• What is the subject matter? Does the issue relate to financial or non-financial matters?
• Does management report on the subject matter themselves?
• Who are the intended users of the practitioner’s report and what are their expectations? Do they expect to be involved in setting the scope of the work?
• Is information prepared by management provided to external parties? If so, who would be looking at the report and for what purpose?

The practitioner should help management determine what service options best suit their needs.

The thought process should help management become more specific about the expectations and the understanding of who the users of the assurance report are and why they will need it for.

2.4 Types of services

In this sub-section, we review the nature and risk related to different types of services to help understand what would be the best type of service to perform to meet differing needs.

The following service categories are considered:

• assurance (see 2.4.1);
• agreed-upon procedures (AUP) (see 2.4.2);
• compilation (see 2.4.3);
• consultancy services (see 2.4.4); and
• other services (see 2.4.5).
Figure 1: Decision flow to determine the most appropriate service

<table>
<thead>
<tr>
<th>Establishing what the users need to know and what to report on</th>
<th>Instructing party</th>
<th>Practitioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define who the users are and their needs at this stage. If an independent report is required define the material that is required to be reported to the users.</td>
<td>Understand the needs and support management in defining their and the users’ information needs.</td>
<td></td>
</tr>
<tr>
<td>Use existing established guidelines (such as industry standards or convention) or own criteria to structure or specify the collection and presentation of the material. Ensure balance and consistency in selection of guidelines and generation of material.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Focus on ensuring that the practitioner’s report helps users in their appraisal of activities and decision making.</td>
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<table>
<thead>
<tr>
<th>Selecting the right service</th>
<th>Instructing party</th>
<th>Practitioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consider the potential services available and the merits for management and the users of the information for each of the potential services.</td>
<td>Advise on options and consider own experience and competence.</td>
<td></td>
</tr>
<tr>
<td>Identify and select the appropriate practitioners to provide the service.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establish that the professional is suitably qualified and experienced to provide the service.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Getting the best value from the service</th>
<th>Instructing party</th>
<th>Practitioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure the service is provided in accordance with an appropriate standard and guidance.</td>
<td>Consider the applicable standards, the appropriateness of the required report and the evidence available.</td>
<td></td>
</tr>
<tr>
<td>Ensure the report assists users in making decisions and meeting other objectives.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide and/or facilitate necessary information and access.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4.1 Assurance

In an assurance engagement, the practitioner expresses a conclusion designed to enhance the degree of confidence of the user about the outcome of an evaluation of measurement of a particular item (known as a subject matter or subject matter information) against specified criteria. For example, have the financial statements (subject matter information) been prepared in accordance with the applicable financial reporting framework (criteria)?

The type of assurance conclusion required will affect the nature and scope of work that the practitioner carries out and the form of conclusion that the practitioner issues. The practitioner expresses either a reasonable assurance conclusion (equivalent to a financial statement audit level) opinion, or a limited assurance (equivalent to a review level, see Appendix 3 for further consideration) conclusion.

The practitioner’s report and the conclusion therein are for the benefit of intended users, usually comprising third parties but which may also include management of the organisation. When the practitioner evaluates a subject matter against criteria that is designed for a specific purpose, the report usually includes a statement restricting the use of the assurance report for that purpose. In addition, the report may indicate that it is intended solely for specific users.
For example, where the criteria are based on the terms of contract between two business partners, they may not be relevant or appropriate for, or even known to, other parties, including potential business partners.

**Critical considerations**

The subject matter of the assurance engagement, for example historical financial information or a regulatory compliance return, will determine the professional assurance standards and supporting guidance to be used.

The *International Framework for Assurance Engagements* (the Framework) published by the IAASB sets out principles that apply to all assurance engagements. Detailed assurance standards, general or subject matter specific, are compliant with the Framework (for further information on the Framework, see 3.2).

For assurance services, other than audits (ISAs) or reviews (ISREs) of historical financial information, such as assurance regarding internal controls and processes, contractual terms, pro forma financial information, sustainability reports and non-financial performance measures, the applicable standards are International Standards on Assurance Engagements (ISAEs).

All assurance engagements are subject to relevant ethical requirements, including those pertaining to independence, contained in Parts A and B of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). The fundamental ethical principles that apply to all services that professional accountants in public practice are: integrity, objectivity, professional competence and due care, confidentiality, professional behaviour and technical standards. Equally, the *International Standard on Quality Control 1* (ISQC1) will apply to all services that the practitioner provides.

As a result of either a client’s request or the need to comply with legal and regulatory requirements, the practitioner may be required to provide an assurance report in accordance with specific requirements or use specific wording which may conflict with an assurance engagement standard such as ISAE 3000 *Assurance Engagement other than Audits or Reviews of Historical Financial Information*. Where in consequence the practitioner is unable to follow an assurance engagement standard in full, he should not refer to the assurance engagement as having been conducted in compliance with the standard. For many such engagements, however, the practitioner should make as much use of the ISAs or ISAEs and the Framework as is possible. This is because these assurance standards provide a clear set of principles for carrying out assurance engagements.

The following conditions are required to be met before accepting an assurance engagement:

- an expectation that relevant ethical requirements, such as independence and professional competence will be satisfied;
- an expectation that there is a rational purpose to the engagement;
- the engagement exhibits all of the following five elements:
  - a three-party relationship involving the practitioner, a responsible party, and intended users;
  - an appropriate subject matter;
  - suitable criteria exist and such criteria will be available to intended users;
  - the practitioner will have access to sufficient appropriate evidence to support the conclusion; and
  - a conclusion, in the form appropriate to the engagement, is to be contained in a written report.

An overview of these elements is provided below and they are considered further in Section 3.

Assurance engagements involve three separate parties: a practitioner, a responsible party and intended users of the assurance report. Engagements can only be accepted if the subject matter is the responsibility of a party (for example management of an organisation) other than the intended users or the practitioner. The responsible party is responsible for the information on which the practitioner is engaged to give a conclusion. Acknowledgement by the responsible party for its responsibilities is essential to ensure the appropriate relationship exists between the responsible party and the practitioner, and to establish a basis for a common understanding of the responsibility of each party.

Of particular importance are the relative roles and responsibilities of the parties in the assurance process. Practitioners generally perform assurance engagements for the benefit of intended users which will often include their client, ie, management of the responsible party.
The assurance services need not necessarily include an external user as assurance may be provided over the client’s own operations for the client’s own use. In such cases there will be two different parties within the organisation – those responsible for the operations under scrutiny (such as management) and those ultimately responsible for the organisation (the Board). We refer to this as a three-party relationship despite there being only one organisation other than the practitioner. The three-party relationship is considered further in 3.4.

The subject matter of an assurance engagement can take many forms. An appropriate subject matter is (a) identifiable, and capable of consistent evaluation or measurement against the identified criteria; and (b) 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. Further consideration on the subject matter is provided at 3.5.

Suitable criteria are necessary because they provide the frame of reference for a reasonably consistent evaluation or measurement of a subject matter. What constitutes suitable criteria will depend on the engagement circumstances – in some circumstances they may be identified by law or regulation, in others they may be specifically designed to meet the needs of specific intended users. Suitable criteria exhibit the following characteristics: relevance, completeness, reliability, neutrality and understandability. See 3.6 for further consideration.

2.4.2 Agreed-upon procedures (AUP)1

In an agreed-upon procedures engagement the practitioner provides a report of the factual findings from the procedures and tests he has performed with professional skill. The procedures and tests should be sufficiently detailed so as to be clear and unambiguous, and discussed and agreed in advance with the engaging parties so that the factual findings are useful to them and, depending upon the engagement, others to whom the report is made available. The practitioner’s report does not express a conclusion, and therefore it is not an assurance engagement in the technical sense. It does not provide recommendations based on the findings. The report is worded so as restrict access and/or reliance on it to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the findings. The specified parties review the procedures and findings in the practitioner’s report and use the information to draw their own conclusions.

The value of AUP comes from the practitioner objectively carrying out procedures and tests with relevant expertise thus saving the engaging party carrying out the procedures and tests themselves. AUP are most effective where the engaging parties are knowledgeable enough to identify the area or matter to focus on, discuss and agree the procedures to be performed, and interpret the findings in their own decision making.

AUP can also be a powerful tool where a client initially seeks a practitioner’s support for assertions for which sufficient work cannot be performed or evidence obtained. For example, clients or users may ask the practitioner to issue a conclusion concerning such matters as the future performance of the client which the practitioner cannot support by any amount of work. Issuing such reports may give rise to misunderstandings such that the practitioner may potentially become the equivalent to insurers or guarantors of the client’s obligation to third parties. Instead, the practitioner may effectively propose an AUP engagement testing relevant control procedures without concluding on how such procedures may affect the future performance. Informed users may find the AUP engagement useful to form their own conclusion based on the findings reported by the practitioner.

Critical considerations

When performing an agreed-upon procedures engagement on historical financial information, practitioners should, as a minimum, comply with International Standards on Related Services (ISRS) 4400 Engagement to Perform Agreed-upon Procedures on Financial Information. ISRS 4400 also provides useful guidance for engagements regarding non-financial information.

ISRS 4400 requires compliance with the applicable requirements of the Code of Ethics for Professional Accountants issued by the IESBA. The ethical principles that apply to agreed-upon procedures engagements are the professional responsibilities for integrity, objectivity, professional competence and due care, confidentiality, professional behaviour and technical standards. Independence is however not a requirement for agreed-upon procedures engagements. The specific terms of an engagement may however require the practitioner to refer to the independence requirements of IESBA’s Code of Ethics for Professional Accountants. Equally, ISQC1 will apply to all services that the practitioner provides under ISRS 4400.

1 Based on ISRS 4400.
As a result of either a client’s request or the need to comply with legal and regulatory requirements, a practitioner may perform an agreed-upon procedures engagement in accordance with specific requirements or standards other than ISRS 4400. Where the practitioner is unable to follow ISRS 4400 in full for example because of a specific regulatory or other requirement, he should not refer to the engagement as having been conducted in compliance with the standard. For many such engagements, irrespective of whether the practitioner performs the agreed-upon procedures engagement in accordance with legal and regulatory requirements, the practitioner should make as much use of ISRS 4400 as is possible. This is because ISRS 4400 provides a clear set of principles for carrying out agreed-upon procedures engagements.

ISRS 4400 requires clear agreement of the following with the engaging parties:

- nature of the engagement including the fact that the procedures performed will not constitute an assurance engagement and that accordingly no assurance conclusion will be expressed;
- stated purpose for the engagement;
- identification of the information to which the agreed-upon procedures will be applied;
- nature, timing and extent of the specific procedures to be applied;
- anticipated form of the report of factual findings;
- limitations on the use and distribution of the report of factual findings.

It is important that users of the report take responsibility for the sufficiency and appropriateness of the procedures for their purposes.

2.4.3 Compilation

The objective of a compilation engagement is for the practitioner to carry out procedures such as collecting, classifying and summarising subject matter data and presenting it in accordance with the applicable reporting framework. The most common compilation engagement is one in which a practitioner receives financial data and information from a client and rearranges it into a set of financial statements. The procedures do not involve verifying the subject matter data, and the practitioner does not express a conclusion on the compiled information. As such, this type of engagement does not constitute an assurance engagement. However, as the practitioner uses expert knowledge of the subject matter and the reporting framework to compile the information, the client may be provided with some degree of comfort. The practitioner issues a compilation report to set out the nature of the compilation engagement and respective responsibilities to avoid expectation gaps arising among the readers of the report.

Critical considerations

When compiling historical financial information, practitioners should follow the guidance provided in AAF 2/10 Chartered accountants’ reports on the compilation of financial statements of incorporated entities, or AAF 3/10, Chartered accountants’ reports on historical financial information of unincorporated entities.

The relevant international standard issued by the IAASB is International Standards on Related Services (ISRS) 4410 Engagement to Compile Financial Statements. ISRS 4410 also provides useful guidance for engagements regarding non-financial information.

As with assurance and AUP engagements, ISRS 4410 requires compliance with the applicable requirements of the Code of Ethics for Professional Accountants issued by the IESBA. The ethical principles apply to compilation engagements as for AUP engagements. Compliance with the Code of Ethics is an important aspect of compilation engagements. This is because the value of compilation by the practitioner is driven primarily by these ethical principles as the engagement does not involve any testing. Independence is not a requirement for compilation engagements; however, the specific terms of an engagement may require the practitioner to refer to the independence requirements of IESBA’s Code of Ethics for Professional Accountants. Equally, ISQC1 will apply to all services that the practitioner provides under ISRS 4410.

As a result of either a client’s request or the need to comply with legal and regulatory requirements, a practitioner may perform a compilation engagement in accordance with specific requirements or standards other than ISRS 4410. Where the practitioner is unable to follow ISRS 4410 in full because of a specific regulatory or other requirement, the practitioner should not refer to the engagement as having been conducted in compliance with the standard. For many such engagements, irrespective of whether the practitioner performs the compilation engagement
in accordance with national legal and regulatory requirements, the practitioner should make as much use of the ISRS as is possible. This is because the ISRS provides a clear set of principles for carrying out compilation engagements.

ISRS 4410 requires clear agreement of the following with the engaging parties:

- nature of the engagement including the fact that compilation will not constitute an audit or a review and that accordingly no assurance will be expressed;
- stated purpose for the engagement;
- identification of the reporting framework to be used;
- respective responsibilities of management and the practitioner, including management responsibility for the information compiled, applicability of the financial reporting framework that is acceptable in view of the intended users and the accuracy and completeness of underlying records;
- limitations on the use and distribution of the report.

2.4.4 Consultancy services

Consultancy services, also often referred to as advisory services, utilise a practitioner’s skills, observations, experiences, and knowledge of the advisory and consulting process. Consultancy engagements typically relate to the design and development of new methods, approaches and strategies for an organisation and may include the implementation of new systems and processes. Consulting services encompass a wide range of consulting methodologies and approaches on subject matters such as strategy, operations, technology and people.

It is essential that the practitioner obtains a clear understanding of the purpose of the engagement from the client’s perspective and their expectation of the focus and content of the deliverables. The consulting process is an analytical process that typically involves some combination of activities relating to:

- objective setting;
- fact finding and reporting;
- definition of problems or opportunities;
- evaluation of alternatives;
- development of recommendations including actions;
- communication of results;
- implementation and follow up; and
- independent ‘views’.

Reports, if issued, are generally written in a narrative 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 practitioner and the client.

Reports tend to set out a practitioner’s diagnosis of the issue, evaluation of solutions, and recommendations related to a subject matter such as a system, process or a situation and alternatives for the client’s consideration. Other than the client, there is no other user of these reports.

There are currently no IAASB standards for consultancy or other types of services. As with other services, accountants comply with the applicable requirements of the Code of Ethics for Professional Accountants issued by the IESBA. Although not developed with consultancy and other such services in mind, the key elements of a system of quality control noted in ISQC1 such as provisions for leadership responsibilities, acceptance, human resources, engagement performance and monitoring may also be important in principle for consulting engagements.

Critical considerations

Consultancy services are subject to a practitioner’s risk management policies relating primarily to engagement acceptance and independence. These vary depending on whether the advisory services are provided to audit clients or to non-audit clients. There are currently no international standards that specifically address advisory engagements.

Additional risk considerations include:

• assigning individuals with the appropriate skills and experience – for certain engagements this may include meeting specific accreditation requirements;
• using appropriate methodologies;
• reviewing engagements in accordance with established firm policies;
• supporting any findings and recommendations with relevant evidence and analysis; and
• carefully wording the practitioner’s report and including necessary disclaimers and restrictions on use and distribution.

2.4.5 Other services (eg, investigation, due diligence)
There are many other types of service that practitioners can provide for their clients including a range of investigative services. These services often involve the practitioner proving or disproving a hypothesis, obtaining specified information or providing facts and information the practitioners have identified during their engagement. The report describes the objective and results of the work, may or may not have a conclusion, but also clearly states that the procedures do not constitute an assurance engagement and that the report conveys no assurance. Typical examples of such work might include:

• Forensic reports: engagements to testify or establish facts and evidence to be presented in legal proceedings regarding accounting, auditing, taxation or other related matters.
• Due Diligence: engagements to probe into the detail of financial results and sometimes of operational activities of a company that is, for example, a target for acquisition. The reports are factually based.

There are many other examples of investigative services a practitioner might deliver. While typically the deliverables from such engagements do not include an assurance conclusion as defined previously, it is possible that in certain circumstances an assurance conclusion may be sought on a specific piece of information. For example, a client may need assurance over the process of preparing management accounts in accordance with agreed guidelines, to be shared with a fund provider in the context of a funding arrangement. In such circumstances, it is important that the scope of the assurance engagement is clearly set out separately (see 2.4.1) and communicated in writing to minimise any expectation gap arising.

For the purposes of the table below we have termed engagements that we discussed under 2.4.4 and 2.4.5 as other services.

2.4.6 Types of services
Table 1 below summarises different types of services that have been considered above, namely:

• assurance;
• agreed-upon procedures;
• compilation; and
• other services.

Table 1: Types of services

<table>
<thead>
<tr>
<th>Service offered and deliverables</th>
<th>Assurance</th>
<th>Agreed-upon procedures</th>
<th>Compilation</th>
<th>Other services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The practitioner examines information and expresses a conclusion on the outcome of that evaluation. The engagement can be a reasonable or limited assurance engagement.</td>
<td>The practitioner reports factual findings based on procedures agreed with the engaging parties in advance but imparts no assurance conclusion, views or recommendations.</td>
<td>The practitioner compiles information to assist management in accordance with an applicable reporting framework but imparts no assurance conclusion, views or recommendations.</td>
<td>The practitioner carries out various procedures with a view to providing a written report in the form of observations and comments and may also provide recommendations but imparts no assurance conclusion.</td>
</tr>
<tr>
<td>Value of the service</td>
<td>Assurance</td>
<td>Agreed-upon procedures</td>
<td>Compilation</td>
<td>Other services</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------</td>
<td>------------------------</td>
<td>-------------</td>
<td>---------------</td>
</tr>
<tr>
<td>The primary user of the assurance report is a third party who is using or benefiting from the information prepared by the responsible party (eg, management) as an input in decision making. The assurance report enhances the user’s confidence regarding the credibility of the information that varies with the nature of the conclusion in the report.</td>
<td>The users of the practitioner’s factual findings are the party engaging the practitioner and any other specified parties who agree to the procedures to be performed by the practitioner. These parties are relying on the practitioner’s expertise, experience and objectivity to perform the procedures and factually report findings that the parties may use to draw their own conclusion. The findings are an input in the users’ decision-making process.</td>
<td>The primary beneficiary is management whom the practitioner assists, using his expertise and based on information provided by management, to prepare and present information in accordance with an applicable reporting framework.</td>
<td>The user of the practitioner’s report is the engaging party who is relying on the practitioner’s expertise, experience and objectivity. The practitioner’s views or recommendations are inputs in the engaging party’s decision-making process.</td>
<td></td>
</tr>
</tbody>
</table>

| Parties to the engagement | Assurance engagements involve three parties – the responsible party, the practitioner and intended users. The engagement may be instructed either by the responsible party or intended users. The responsible party may benefit from the practitioner’s report but is not the only intended user of the report. | Agreed-upon procedures engagements involve the practitioner and the parties who agree to the procedures. | Compilation engagements involve management (the engaging party) and the practitioner. | Advisory engagements involve the engaging party or parties and the practitioner. |

| Critical considerations | Assurance engagements should only be accepted when, among other things:  
- There is an appropriate subject matter that is capable of consistent evaluation or measurement against identified criteria.  
- The engagement has a rational purpose.  
- Criteria are suitable.  
- The engagement team collectively has the appropriate competencies and capabilities. This includes knowledge and competence in assurance skills and techniques, as well as expertise in the subject matter. | Key features of an agreed-upon procedures engagement:  
- The engaging party and other third parties, if relevant, agree on the procedures to be performed by the practitioner.  
- The practitioner is required to perform the procedures and report factual findings. The practitioner’s report includes only factual findings and it avoids either explicitly or implicitly expressing a conclusion.  
- Users of the practitioner’s report assess for themselves the procedures and factual findings reported and draw their own conclusions.  
- Users of the report acknowledge their agreement to the procedures and their acceptance of the sufficiency and appropriateness of the procedures for their purposes. | Key considerations for compilation engagements include:  
- The need to clarify the scope of the engagement and respective responsibilities and communicate them to the users of the report.  
- Due to the practitioner’s close involvement with the underlying data and the professional manner with which the information is prepared, there is a risk that those who received the compiled information may believe that procedures involved testing of the data. The wording of the compilation report is intended to help address this risk. | Key features of an advisory engagement include:  
- The practitioner employs technical skill, knowledge, experience and objectivity to carry out procedures with a view to providing observations and recommendations. The report may also include consideration of alternatives.  
- The engagement is performed by suitably skilled and experienced individuals. This may include: meeting specific accreditation requirements; involving specialists when considered necessary; and using appropriate methodologies.  
- Any views or recommendations provided should be supported by relevant evidence and analysis. |
Hereafter, this document primarily considers assurance engagements performed in accordance with the IAASB framework and ISAE 3000. Although the discussion herein should be consistent with the principles used for audits and reviews, these are excluded from the scope as there are specific standards for such engagements.

**CASE STUDIES: Background and need**

We provide three case studies that appear throughout this document to illustrate how types of assurance engagement are developed and key considerations are applied. Appendix 4 contains the full table of the case studies while extracts are reproduced in the relevant sections throughout the Assurance Sourcebook.

The three case studies consist of:

**Performance metrics**
A broadcaster that, in order to demonstrate its commitment to a public charter, publishes a set of objectives and wishes to obtain an assurance report to support its claim that it has met the objectives.

**Operational systems**
A service organisation, which provides its customers with information processing infrastructure to manage and collect license fees. The reason for obtaining an assurance report is to demonstrate to its customers the quality of operational controls over the services it provides.

**Stewardship compliance**
An asset manager who manages investment funds for the asset owners and is covered by the UK Stewardship Code. The asset manager hopes to obtain an assurance report on its compliance with the Code including independent verification.

<table>
<thead>
<tr>
<th><strong>Background and need</strong></th>
<th><strong>Performance metrics</strong></th>
<th><strong>Operational systems</strong></th>
<th><strong>UK Stewardship Code compliance</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Background and need</strong></td>
<td>A broadcaster operates under a public charter that determines its objectives. Management wanted to demonstrate publicly how well they had performed against those objectives through a public report. One of the management team was charged with developing the report. This was to be based round a series of performance metrics designed to show how well the company had performed against each objective in the charter. A series of metrics were developed in relation to each objective to show a range of perspectives. The metrics made use of a combination of: data held by the company, information and data obtained from independent third parties such as the Broadcasters Audience Research Board (BARB) and data obtained from contractors’ media access systems for web pages, programmes and similar data.</td>
<td>A service organisation runs operational systems for its customers to manage the collection of their license fees. That involves using the customers’ database to analyse and evaluate information as well as managing and monitoring the resulting communications and information flows. Some of the processes involve further third parties contracted either with the customers or with the company. The company was aware that one of its key contracts was due for re-tender and wanted to demonstrate both its commitment to provide a high quality service through evidence of the quality of control in the systems being operated. However, the Board were not able to define how this might be achieved to best effect.</td>
<td>One of the UK’s leading asset managers decides to report on its stewardship in line with the UK Stewardship Code, issued by the FRC with a view to enhancing the nature of engagement between asset managers acting on behalf of their asset owners and the boards of the companies they invest in. The asset manager is also covered by the ‘comply or explain’ requirement of the Code. The asset manager chose to demonstrate its commitment to the Code by way of complying with all the requirements and have decided to obtain an assurance report on its engagement and voting processes as suggested in the Code. The asset manager has been reporting on its internal controls and receiving an assurance report for the past few years, and therefore found the new requirements relatively familiar.</td>
</tr>
</tbody>
</table>
2.5 Types of assurance

Where the client and the practitioner establish that an assurance service is being sought, ISAE 3000 provides two options; reasonable and limited assurance. For a reasonable assurance engagement the practitioner needs to reduce the assurance engagement risk (the risk that an inappropriate conclusion is expressed when the information on the subject matter is materially misstated) to an acceptably low level as the basis for a positive form of expression of the practitioner’s conclusion. Such risk is never reduced to nil and therefore, there can never be absolute assurance. For a limited assurance engagement the practitioner collects less evidence than for a reasonable assurance engagement but sufficient for a negative form of expression of the practitioner’s conclusion. The practitioner achieves this ordinarily by performing different or fewer tests than those required for reasonable assurance or using smaller sample sizes for the tests performed. Further discussion on the work effort for limited assurance is available from Appendix 3.

The practitioner uses the same risk basis for planning their work and the same levels of materiality in evaluating the outcome of tests for reasonable and limited assurance engagements. Since the extent of evidence collected for a limited assurance engagement may be limited due to the reduced sample sizes and test coverage adopted, the level of risk of material misstatement remaining is potentially higher than in a reasonable assurance engagement. Hence, the practitioner is not in a position to express the same degree of confidence as in a reasonable assurance engagement. The conclusion in a limited assurance engagement is accordingly framed in a negative sense, ‘based on the procedures performed, nothing came to our attention that the management assertion on XYZ is materially misstated…’ in contrast with a reasonable assurance conclusion which would be formed in a positive sense, ie, ‘based on the procedures performed, the management assertion on XYZ is reasonably stated…’

Practitioners may be familiar with the limited nature of the work performed in relation to a published review opinion for listed company half year financial statements. The half year review is an example of a limited assurance engagement that is conducted by the company’s auditor under ISRE 2410. These reviews are ordinarily based on inquiry of management and analytical procedures. Analytical procedures typically involve the comparison of actual information against the expectations formed based on the prior year and industry average. The limited nature of the work is justified because the practitioner has a base of history with the client’s previous financial statement audit and an understanding of the client’s control environment which generally helps the practitioner to determine the reliability of the information produced by management.

While there are certain parallels between half year reviews and other limited assurance engagements conducted under ISAE 3000, there are also differences. The half year review is a defined concept in relation to a clearly defined subject matter, ie, the financial statements, and for which there is an expectation of a strongly defined internal control environment appropriate for the size and complexity of the client, structure through accounting practices, double entry book-keeping and other checks and balances as the organisation is a listed company. The company’s auditor will have obtained a sound understanding of these matters and conducted recent tests of controls and substantive procedures as part of the annual audit. This background therefore reduces the need for detailed tests beyond inquiry, analytical review and other procedures of limited nature. In contrast, a limited assurance engagement may be tackling a subject matter which is less well defined and for which the control environment is far less mature and robust. For example, the calculation of a company’s carbon footprint may have been performed by an individual and the results collected on a spreadsheet and supported by files of memorandum information. The practitioner may not have the equivalent understanding or knowledge of the past carbon footprint which is not based on double entry bookkeeping. Accordingly, in using a risk basis for the limited assurance engagement, the practitioner may not find it possible to solely adopt analytical review as a viable basis for the testing.

The International Framework for Assurance Engagements further differentiates assurance engagements into two types. The differentiation is based on who initially measures or evaluates the subject of interest (subject matter) and provides information about it.

In an attestation (also known as assertion-based) engagement, the responsible party, (usually management), carries out the measurement or evaluation of the subject matter and reports the information (the subject matter information) which contains the responsible party’s assertion (eg, ‘the subject matter information is fairly stated as of date/month/year…’). The work the practitioner performs is to give an assurance conclusion on this assertion.
Both the subject matter information including the responsible party’s assertion and the practitioner’s assurance report are made available together to the intended users. Attestation engagements are a familiar form of assurance engagement, as audits and reviews of financial statements have been structured as attestation engagements: management reports the financial performance and position in the annual accounts, asserts the information as being true and fair, and the practitioner gives a conclusion on the assertion.

The second type of engagement is a **direct (direct reporting)** engagement. The responsible party does not present the subject matter information in a report in a direct engagement. Instead the practitioner reports directly on the subject matter and provides the intended users with an assurance report containing the subject matter information. An example of a direct engagement would be a Sarbanes-Oxley engagement to report on the effective control over the financial reporting process. A direct assurance conclusion would be constructed as ‘. . . In our opinion the company maintained, in all material respects, effective internal control over financial reporting as of date/month/year, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) . . .’

Practitioners more commonly perform assertion-based engagements. This is because, ultimately, management (as the responsible party) are responsible for their business and, therefore, should be in a position to present relevant assertions in the subject matter information. They are also in a better position to understand who would use the information, what users want to see, in what format, and for what purpose.

The decision as to the type of assurance needs to be agreed with the client by the practitioner when agreeing the terms of engagement.

### 2.6 The breadth of subject matters

There is a wide range of information that could be subject to some form of external assurance. Examples of areas where an external assurance service might be requested are shown below.

- quantitative information, including financial information and performance measures such as KPIs;
- aspects of information technology such as information flows and security;
- management information flows;
- regulatory processes and compliance;
- compliance with contractual agreements;
- operations and projects, including where performed by third parties;
- governance, strategy and management processes;
- environmental information;
- internal controls and internal control environment;
- risk management systems and processes;
- ethics and behaviour;
- financial processes.
3. STRUCTURING ASSURANCE ENGAGEMENTS

How do standards and guidance help professional accountants provide assurance? What are the practical considerations when structuring an assurance engagement?
3. STRUCTURING ASSURANCE ENGAGEMENTS

3.1 Introduction

The primary users of this section, which outlines key considerations in developing the structure of an assurance engagement, and section 4, which addresses the delivery of assurance engagements, are those practitioners who carry out assurance engagements and those who instruct the practitioners to carry out the service. Familiarity with the breadth of potential assurance engagements and the key components of the assurance framework enables the practitioner to work with their client and the other stakeholders to design an assurance engagement that meets users’ needs.

Assurance reporting may be requested in relation to the operations of a different party, for example an outsourced service provider. In this situation the client is normally the user, with the responsible party as the outsourced service provider. More details on the three-party relationship are given in 3.4.

3.2 Scope and positioning

The IAASB’s Framework defines and describes the elements and objectives of assurance engagements. More detailed engagement standards set out basic principles, essential procedures and related guidance, and support the application of the Framework in practice.

The elements of assurance in the Framework are required to be present in any assurance engagement. Consideration of those elements assists practitioners to structure an assurance engagement with their clients where no standard or guidance on the specific subject matter exists. An overview of the elements of assurance engagements was provided in 2.4.1:

- a three-party relationship;
- an appropriate subject matter;
- suitable criteria;
- sufficient appropriate evidence; and
- a written assurance report.

These concepts are considered further in this section.

Discussion with clients when scoping an assurance engagement is an important process. It should help the practitioner to obtain a sound understanding of the objective of the engagement, the nature of the subject matter, and the requirements of both the client and users. This understanding helps the practitioner plan procedures to gather sufficient and appropriate evidence to come to a conclusion that is useful in the light of the users’ need.

The practitioner should note that it is possible to obtain assurance on almost any subject matter (or subject matter information) provided that the scope of the assurance engagement is in line with the relevant standards e.g. the method of measuring or evaluating the subject matter is appropriate, criteria are suitable, and sufficient and appropriate evidence exist. However, an assurance engagement may not always represent the optimal approach from a cost benefit perspective. Other approaches, such as AUP, may achieve the required outcome with less effort on the part of both management and the practitioner.

To commence an assurance engagement, the practitioner will need to outline engagement standards with the client. International engagement standards issued by the IAASB include:

- ISAs (International Standards on Auditing) or ISREs (International Standards on Review Engagements) – on historical financial information.
- ISAAs (International Standards on Assurance Engagements) – on any subject matter other than historical financial information.

In addition, the IAASB issues International Standards on Related Services covering non assurance services such as AUP and compilation engagements.
ISAE 3000, Assurance engagements other than audits or reviews of historical financial information applies to subject matters that are not covered by subject-specific engagement standards. Subject matter specific assurance standards include ISAE 3402 relating to financial internal controls of service organisations and ISAE 3410 relating to greenhouse gas emission statements.

Table 2: Existing standards and guidance for various subject matter areas

<table>
<thead>
<tr>
<th>Assurance area/subject matter area</th>
<th>Assurance standard(s)/guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantitative information, including financial information and performance measures such as KPIs</td>
<td>ISAs, ISRE 2400, ISRE 2410, ISAE 3000, ISAE 3420, SIR 4000, AAF 02/06, AAF 03/06</td>
</tr>
<tr>
<td>Aspects of information technology such as information flows and security</td>
<td>ISAE 3000, ITF 01/07</td>
</tr>
<tr>
<td>Management information flows</td>
<td>ISAE 3000</td>
</tr>
<tr>
<td>Regulatory processes and compliance</td>
<td>ISAE 3000</td>
</tr>
<tr>
<td>Compliance with contractual agreements</td>
<td>ISAE 3000</td>
</tr>
<tr>
<td>Operations and projects, including outsourced operations</td>
<td>ISAE 3000, SSAE 16, ISAE 3402, AAF 01/06</td>
</tr>
<tr>
<td>Governance, strategy and management processes</td>
<td>ISAE 3000, AAF 01/06 Stewardship Supplement</td>
</tr>
<tr>
<td>Environmental information</td>
<td>ISAE 3000, ISAE 3410</td>
</tr>
<tr>
<td>The internal controls and internal control environment</td>
<td>ISAE 3000, ISAE 3402, AAF 01/06</td>
</tr>
<tr>
<td>Risk management systems and processes</td>
<td>ISAE 3000</td>
</tr>
<tr>
<td>Ethics and behaviour</td>
<td>ISAE 3000</td>
</tr>
<tr>
<td>Financial processes</td>
<td>ISAE 3000, APB Bulletin 2011/2</td>
</tr>
<tr>
<td>Greenhouse gas emission statements</td>
<td>ISAE 3410</td>
</tr>
</tbody>
</table>

Details on standards and guidance referenced above are provided in Appendix 2. The table in Appendix 2 also provides ‘vignettes’ to illustrate the variety of services that may be provided.

3.3 Business activities

3.3.1 Context
Owners and managers are engaged in activities to fulfil the objectives of the organisation. Management has a responsibility for the design and implementation of appropriate processes. The board of directors, or where applicable, the audit committee, or their equivalents such as the board of trustees in non-corporate environments, has responsibility for the governance of the organisation. Within this environment, assurance can play a key role in enhancing stakeholder confidence over operations within the scope of the engagement.

3.3.2 Management responsibility
Management, who may also be owners, are responsible for running the business. Accordingly, they are responsible for the subject matter on which an assurance conclusion is sought. Before entering into an assurance engagement, owners and management need to be confident in positively asserting that the business is meeting the relevant objectives, is compliant with relevant contractual and other legal and regulatory obligations, operational and/or reporting processes are designed appropriately and operated effectively, and data is complete and accurate. If management themselves are unsure of whether the subject matter is meeting its objectives or unable to support this assertion with evidence, there is little point in entering into an assurance engagement.

In an assurance engagement, it is usual for the responsible party, normally management, to measure the subject matter and report in the form of subject matter information on the outcome of the measurement of the subject matter. Reporting of subject matter information

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As explained in section 1, ‘Management’ may refer to senior management, executive management, the board of directors, or in certain cases, those charged with governance, depending on the context. Here the term is used to refer to those with responsibility for the subject matter.
by the responsible party is a prerequisite for such ‘attestation’ engagements. This is because management is accountable to the owners or those charged with governance for how they run the business or for aspects in which business partners are interested.

In other cases ie, where management does not produces the information on the subject matter, the practitioner gives a conclusion directly on the subject. In either case, management is responsible for the underlying assertions on the subject matter. If management is not producing the subject matter information which incorporates its assertions, management assertions may be issued in a stand-alone statement alongside the assurance report by the practitioner.

3.3.3 Four stages of management responsibilities
Practitioners need to identify a series of basic concepts for how owners or management together with those charged with governance operate and control the business or organisation. The concepts set out below may be more formalised and better documented within larger organisations. Within small or medium sized businesses and other organisations these concepts may be established as an integral part of the intentions and actions of the owners and managers but may not be systematically documented.

These four concepts are:
1. Leading and establishing the tone at the top.
2. Establishing strategy and aligning objectives.
3. Implementing processes, policies and procedures.
4. Utilising information flows to monitor the performance of the business or operations.

The way that owners and management run the business affects the nature of the assurance engagement, as different owners and management may have different ideas to what aspect of their business should be looked at by a practitioner, what should be used as criteria, to whom the report should be addressed, and what evidence may be available. The degree of monitoring of management as evidenced through documentation also affects the nature and scope of assurance engagement. The relationship between the four management concepts/activities and the focus of different assurance engagements is summarised in the following figure.

Figure 2: Assurance reporting on different aspects of management activity

<table>
<thead>
<tr>
<th>Management activity</th>
<th>Subject matter aspect</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Data and outcome</td>
</tr>
<tr>
<td>Monitoring the process and control effectiveness</td>
<td>✓</td>
</tr>
<tr>
<td>Process and control implementation</td>
<td>✗</td>
</tr>
<tr>
<td>Establishing strategy and objectives</td>
<td>✗</td>
</tr>
<tr>
<td>Tone at the top</td>
<td>✗</td>
</tr>
</tbody>
</table>

For any level of management activity it is possible for an assurance engagement to focus on a range of subject matter aspects as indicated.

Leadership and tone at the top of the organisation, or key elements of this, may best be approached through the practitioner providing an opinion on the fairness of a description of what the management has set out to do thus far. This is because, initially, the design suitability and the operating effectiveness of the arrangements may not withstand external scrutiny due to the pervasive and wide ranging ramifications within the organisation.

As strategy and relevant objectives are better developed, the arrangement may become sufficiently formalised and enable assurance reporting over the design suitability of the arrangements in place.

Here, ‘management’ will normally refer to the executive management and / or the board of directors as appropriate.
Process implementation and monitoring lends itself to assurance over operating effectiveness. An assurance engagement may then focus on either the operating effectiveness of the processes or the data and outcomes measured against criteria as part of monitoring by management. At this stage, the entire arrangement enables management to report comprehensively on its activities for the benefit of the intended users, which may be the subject matter information for the assurance engagement.

The different management activities and related focus of assurance engagements can be regarded as a progression such that more comprehensive assurance is provided as the management and governance of the entity increases in sophistication over time.

From the practitioner’s point of view, the main factors affecting the practitioner’s approach to an assurance engagement will be further defined by a number of factors, in particular the needs of the users:

- Who will benefit from or use the information?
- Why do they require assurance?
- What is their underlying need?

Answers to these questions and consideration of how the five elements of assurance engagements (3.2) apply in each engagement setting will help in structuring assurance engagements.

**CASE STUDIES: Scope**

<table>
<thead>
<tr>
<th>Performance metrics</th>
<th>Assurance over operational systems</th>
<th>UK Stewardship Code compliance</th>
</tr>
</thead>
</table>
| **Scope**           | The company’s auditors were approached to discuss what assurance they might be able to provide to include in their published report. The company was able to provide:  
  - Detailed analyses and evidence showing how the objectives linked to the metrics.  
  - Explanations as to why certain metrics had been chosen and others not.  
  - For each metric, what data had been used, from within the company, drawn from independent bodies such as BARB, and obtained from contractors operating systems for the company.  
  The company, however, did not have a documented version of the methodology. | The audit partner suggested that an assurance report could be provided to existing customers over the operation of the systems run by the company. This was based around:  
  - The company agreeing with its customers a set of control objectives for the relevant systems.  
  - The company documenting the systems in a way that enabled controls to be related back to relevant objectives in a structured way.  
  - The design of the systems to be evaluated and a report provided to the company to enable them to address any control weaknesses.  
  - A programme of testing designed to enable the practitioner to provide a reasonable assurance opinion over the design suitability of the controls of the company for a defined period that would be copied to the customers. | The practitioner and the asset manager discussed and agreed that the asset manager is ready to adopt minimum assurance reporting and focus on a fair description of how the principles of the Code have been applied.  
While there are seven principles in the Code, only four of these, including its management of conflicts of interest and voting activities, are considered suitable for objective evaluation. The scope of assurance report is thus determined to focus on these four objectives. |
3.4 Three-party relationship

Assurance engagements envisaged in this guidance involve three parties: the responsible party, users, and the practitioner. The responsible party performs operations or provides information for the benefit of or relevant to users. It is responsible for the subject matter over which assurance is sought. Users are typically the recipients of services, assets or information of the responsible party, although in some cases the relationship between users and a responsible party may not merely be one-way.

The practitioner is engaged to perform an assurance engagement in relation to the subject matter or the subject matter information that the responsible party is responsible for. Either the responsible party or users, or in some circumstances both, may engage the practitioner as shown in 3.4.4.

3.4.1 The responsible party

The responsible party is responsible for the subject matter and subject matter information where produced. Where there are two organisations (such as an assurance engagement assigned by a service provider), the responsible party typically performs operations or provides information for users in a manner usually governed by a written contract. However, the relationship between the responsible party and users is not always contractual or clearly defined.

3.4.2 Users

Users are the parties that are affected by the activities of the responsible party. In a business context, users may be in a contractual relationship with the responsible party which performs specific activities for their benefit. Where appropriate, users may also receive information in relation to the operations of the responsible party. The type of the operation performed or information provided by the responsible party, the number of users, how they want the information reported and the criteria used will vary. An assurance engagement may be performed in relation to all users or may be restricted to specific users. Where an assurance report is intended for specific users, the assurance report clearly indicates that fact.

In some cases, there may be users that are unidentified at the start of the engagement. This may happen where, for example, the responsible party intends to publish the assurance report on its website. Where this is the case, the risk of the assurance report being received by those who are not party to the engagement, and therefore do not fully appreciate the purpose of the report, may increase. The practitioner’s duty of care therefore needs be clearly reflected in the engagement letter, in the assurance report and throughout the conduct of the engagement. See AAF 04/06 for further guidance.

3.4.3 The practitioner

The practitioner agrees with the engaging party the scope of the engagement, the reporting requirements and ensures that there is appropriate access to the personnel and information of the responsible party and, if applicable, external parties including the users.

The practitioner’s responsibilities will vary depending on who the engaging party is and their needs. To a degree, those responsibilities and needs will be driven by whether the engaging party is the responsible party, the users or both. The practitioner considers whether the responsibilities have been defined to an appropriate level, including the nature of the deliverables, when accepting an engagement.

In an assurance engagement, the practitioner is responsible for determining the nature, timing and extent of procedures so as to gather sufficient and appropriate evidence. He also pursues, to the extent possible, any matter of which he becomes aware and which leads him to question whether a material modification should be made by the responsible party to the subject matter information or to their assertions and to consider the effect on the assurance report if no modification is made.

3.4.4 Parties involved in an assurance engagement

The form of engagements may differ depending on who is involved in the assurance process.
Figure 3: Engagement with the responsible party

Engagement parties

Figure 2 illustrates a form of engagement where the responsible party engages the practitioner. The practitioner performs an engagement to provide an assurance report over the subject matter or subject matter information. This will typically be with the objective of increasing the confidence of current users, or where so agreed prospective users, in the responsible party’s activities. The responsible party will often have contractual obligations to current users and may also be expected to comply with industry or other standards. It also has responsibilities to the practitioner in relation to the performance of the assurance engagement. Examples of these responsibilities and the potential consequences for the practitioner arising from them are set out in 4.2.3 under ‘Where the responsible party is the client’.

In this type of engagement, users may be identified or unidentified, existing or prospective, or combinations of these. Where users are unidentified, the practitioner accepts an assurance engagement only where a typical user is identifiable in the context of the engagement and the assurance report. This is because, without a reasonably definable user or user group (such as ‘investors’), the practitioner may not be able to determine the suitability of the criteria against which to assess the subject matter or the subject matter information. The practitioner considers the issues related to his duty of care see 4.2.3.

Figure 4: Engagement with the users

Engagement parties

Figure 3 shows an engagement where one or more users contract with the practitioner to assess the operations of the responsible party with the objective of increasing the users’ confidence over the activities of the responsible party. In this type of engagement, the responsible party has contractual (or other) obligation to the users, and the users have responsibilities to the practitioner in relation to the assurance engagement. Examples of these responsibilities and the potential consequences for the practitioner arising from them are set out in 4.2.3 under ‘Where the users are the client’.
While it is less usual for the responsible party and users to be from the same organisation, this situation can arise. In most cases, the responsible party or users anticipate or have in mind external users who would be interested in the subject matter, subject matter information, or relevant assurance reporting, regardless of whether an assurance report they commission would be made available to them. For example, annual reports contain a range of detailed disclosures. Such disclosures are intended for shareholders and the statutory audit provides a degree of assurance over them. However, due to the relative sensitivity or importance of a specific aspect of disclosures, the audit committee may decide to obtain an assurance report on that aspect. Such an assurance report may be issued solely for the benefit of the audit committee; however, the practitioner may be asked to bear the needs of the shareholders in mind when considering matters such as the criteria and materiality.

In this type of assurance engagement, the practitioner needs to consider at the outset whether the engagement is feasible. The main risks involved may be that:

- The client wishes to pass on the entire risk of misstatement to the practitioner.
- It is only the users who are able to provide appropriate representations regarding the subject matter, for example where only directors have the legal capacity to make representations on behalf of the company. Accordingly, the practitioner may appear to bear the primary risk arising from a misstatement.

In such situations, especially in the case of direct reporting assurance engagements, it is important to understand the context of the proposed engagement and to establish whether, and if so how, these risks can be managed in different circumstances. Examples of how such risks might be dealt with include:

- Clarifying in the engagement letter mutual expectations as to who bears the risk and how it is to be borne.
- Establishing whether appropriate representations are capable of being made by the responsible party and confirming both this and the impact on mutual expectations as to who bears the risk and how it is to be documented in the engagement letter.
- Establishing that additional representations will be sought from the users that they have provided all information they possess that may be relevant to an assessment of the subject matter to the responsible party and all information they possess that may be relevant to the assurance report to the assurance practitioner.
- In the case of direct assurance reports, establishing that a private attestation statement addressed by the responsible party to the users will be provided to the assurance practitioner by the users together with a representation that they are not aware of any information to indicate the attestation statement is misstated.

### 3.5 Subject matter

Practical matters impacting the ability of a practitioner to evaluate the subject matter, and in particular how management handles information they generate internally, are considered in 3.3.3. In the context of assurance engagements, the practitioner may ask more detailed questions, such as:
• How well developed is management control over the subject matter?
• What degree of documentation is available regarding the subject matter?
• What is the most cost effective way to address the needs of the users and achieve an appropriate degree of credibility over the subject matter?

Depending on these factors, an assurance engagement may focus on a different aspect or aspects of a subject matter or subject matter information, such as:
• Fairness of description of the subject matter or criteria in place.
• Design of processes where relevant (eg, business activities, control procedures).
• Operating effectiveness of processes where relevant.
• Outcome (eg in terms of the compilation or calculation of data outcomes based on input data and processes used).
• A comprehensive report (eg, a report that may include elements of all of the above with an overall view of the subject matter from management).

In addition, the focus of an assurance engagement will depend on matters such as user needs, suitable criteria and the availability of evidence. For example, the engaging party may be interested in the financial performance of an organisation. The subject matter information may, as in a financial statement audit, be the numerical information which is the outcome of the financial performance. It is equally possible that management is interested in the organisation’s financial reporting process and asks the practitioner to evaluate its report on internal control processes. For example, in the case of greenhouse gas emissions, management may choose to ask the practitioner to focus on:
• the fairness of the description on its policy and method of measuring the emissions;
• the design effectiveness of the emission measurement procedures;
• the effective operation of the emission measurement procedures;
• the accuracy of the measurement of the emissions; or
• the emissions report.

As stated in 3.3.3, the maturity of the organisation’s arrangements can have a significant impact on the nature of what the practitioner can give an assurance conclusion on.

For example, an engagement that focuses solely on controls and processes may lend credibility to how the input data or transactions are processed, but does not directly give any assurance conclusion on the data or outcomes. However, an engagement that focuses solely on substantive evidence and the evaluation of data or outcomes says little as to the reliability of the underlying systems of control or the robustness or sustainability of the processes involved. Accordingly it is important for the practitioner to understand both the brief from the engaging party as well as the needs of the users.

At times this can mean that practicalities prevent the users’ needs from being fully met. For example, a user may be ultimately interested in obtaining assurance on the data or outcome. The relevant data may be calculated by processes that are well documented and capable of being tested for design and operating effectiveness. Where obtaining the input data may be extremely difficult or disproportionately costly, assurance over the output data may not be practical. However, it may still be possible to evaluate the design and the operating effectiveness of the processes for calculating the output data, combined with a limited sample of input and output data reconciliation. This may be sufficient for the users’ needs in the first instance.

An example is provided by the development of assurance reporting on stewardship. Assurance guidance developed in conjunction with stakeholders was issued as a supplement to AAF 01/06, Guidance on assurance reports on internal controls of service organisations. While AAF 01/06 covers the fairness of description, design suitability and operating effectiveness of internal controls, the subsequent stewardship supplement to AAF 01/06 focuses on the fairness of description of stewardship compliance by asset managers. The reduced scope was considered appropriate as this was a new subject matter and it is hoped that subsequent reports may cover design and operating effectiveness as this type of reporting develops over time.

The nature of the subject matter also affects what may be important in the context of delivering the assurance engagement. For example, in 3.3.3 we considered the various stages of management responsibility, but these are not discrete stages. For example, compare two potential assurance engagements: one relating to assurance over data; another concerning regulatory matters.
which are primarily behavioural in nature. In the case of an assurance engagement on data, while the practitioner needs to consider the tone at the top, much of the practitioner’s work may focus on the design and operation of control procedures together with some analytical review and substantive testing. On the other hand, in the case of behavioural compliance, the tone at the top will be of much greater importance. This is because the tone at the top will impact more directly on the behaviour of staff which is the subject matter of the assurance engagement.

3.6 Criteria

Assurance engagements require the practitioner to express an overall conclusion on the subject matter assessed in reference to specified criteria. Criteria also assist the parties to the engagement and agreed recipients of the assurance report to understand how the practitioner has evaluated the subject matter to reach a conclusion. Criteria are dependent on the subject matter and may be already established or developed for a specific engagement.

Criteria may be developed specifically for the engagement where there are no suitable established criteria. In this case, the practitioner considers whether specifically developed criteria are ‘fit for the purpose’ of the engagement using characteristics discussed below; see 3.6.1. In certain circumstances, the practitioner may also consider consulting with the responsible party and, where appropriate, the users, to ensure that the criteria meet their needs before proceeding with an engagement.

Criteria need to be available to all the addressees identified in the assurance report. Established criteria are often publicly available. If the criteria are not publicly available, for example because they are contained in the terms of a contract, this would affect who can access the assurance report.

3.6.1 Characteristics of criteria

The practitioner assesses the suitability of criteria for the purpose of a specific assurance engagement. Suitable criteria as set out in the IAASB Assurance Framework exhibit the following characteristics:

- **Relevance**: relevant criteria contribute to conclusions that assist decision making by the intended users of the assurance report.

- **Completeness**: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure.

- **Reliability**: reliable criteria allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners.

- **Neutrality**: neutral criteria contribute to conclusions that are free from bias.

- **Understandability**: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

Established criteria tend to be formal in nature, but the degree of formality depends on the subject matter. Criteria in areas such as compliance with legal or regulatory requirements may be widely recognised, either because they are available to the public or because there is an established standard, for example, ISO/IEC 27001 (information security management) and the COSO framework (internal control). Performance criteria may be set out in contractual arrangements as agreed with the users. It is not unusual for established criteria to be customised to meet users’ needs.

The practitioner considers the suitability of the criteria, even where established criteria are available, to ensure their relevance to the needs of the intended users of the assurance report.
### CASE STUDIES: Criteria

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Performance metrics</th>
<th>Assurance over operational systems</th>
<th>UK Stewardship Code compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The practitioner concluded that:</td>
<td>• The subject matter of this report was clear: a range of metrics and associated descriptions.</td>
<td>• The practitioner concluded that:</td>
<td>The principles and guidance of the Code provide the criteria for the asset manager’s policy statement.</td>
</tr>
<tr>
<td></td>
<td>• The criteria would be clear provided that the company wrote up its methodology which reflects the established industry standard.</td>
<td>• The subject matter of this report was clear: the effective operation of the systems operated on behalf of the customers</td>
<td>The fairness of the description will be assessed in terms of their relevance, completeness, reliability, neutrality and understandability.</td>
</tr>
<tr>
<td></td>
<td>• The engagement would require the methodology to be evaluated to ensure that it was fit for purpose.</td>
<td>• The criteria would be clear provided that agreement could be reached between the specific customer and the company on the process objectives.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The methodology would need to be published to be available to those who receive the report.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 3.7 Evidence

The practitioner plans and performs an assurance engagement with an attitude of professional scepticism to obtain sufficient appropriate evidence about whether the subject matter information satisfies the criteria or is free of material misstatement. With evidence, the practitioner aims to reduce the risk of issuing an inappropriate conclusion over the subject matter or subject matter information. This is called the assurance engagement risk.

The practitioner considers materiality with a view to determine whether the errors and deficiencies identified reach, in terms of size or nature, a degree such that they need to qualify their conclusion. Materiality differs in each engagement context: its determination requires a comprehensive understanding of user needs: whether the users would change the way they act, (eg, to challenge the responsible party regarding its conduct), to use or incorporate information produced by the responsible party, to renew a contract, to provide funds, or to allow the responsible party access to a membership association.

Assurance engagement risk is always present in these engagements and cannot be entirely eliminated. Insufficient, or unsuitable evidence, inter alia, would increase the risk. Therefore the practitioner considers the quantity and quality of available evidence when planning and performing the engagement; in particular when determining the nature, timing and extent of evidence-gathering procedures and assessing the evidence obtained.

### 3.8 Assurance report

The practitioner provides a written report containing an assurance conclusion on the subject matter or subject matter information. Reports for assurance engagements that are compliant with ISAE 3000 include a number of basic elements as set out in 4.5.2. The practitioner tailors these elements for the specific engagement depending on the subject matter and, where appropriate, considers a qualified conclusion. In addition, the practitioner considers other reporting responsibilities, including communicating with those charged with governance where it is appropriate.

It would be unusual, but not impossible, for a single report to cover more than one subject matter. It is relatively straight-forward and relatively common for a report to cover more than one aspect of a single subject matter.
Where the subject matter information comprises a number of aspects of a single topic, separate conclusions may be provided on each aspect. This is achieved by clearly identifying each aspect separately in the:

- scope of the assurance report, including the:
  - level of assurance being provided,
  - description of which reporting standard is being applied and
  - criteria being used;
- description of the work performed; and
- conclusion to the report.

Accordingly, not all the conclusions need to relate to the same extent of evidence-gathering procedures. Each conclusion is clearly expressed in the form that is appropriate to whichever type of assurance is required – reasonable or limited. Such structures are used where the subject matter is wide-ranging, such as in Corporate Responsibility reports, and the users’ needs are relatively complex.

By contrast, although a report could address and include conclusions on a range of differing subject matters such as certain quantitative information (KPIs), the state of regulatory compliance and the quality of financial controls, this can be confusing to the recipient of the assurance report. This may be because each subject matter would have a different user or would require different criteria and evidence gathering methods. It may be more appropriate and avoid confusion for recipients to receive separate reports on each subject matter.

The IAASB Assurance Framework states that the practitioner expresses a qualified or adverse conclusion or a disclaimer of conclusion where:

- the practitioner concludes that there is not sufficient appropriate evidence to support an assurance conclusion due to the limitation on the scope of the practitioner’s work (qualified or disclaimer);
- the responsible party’s assertion or the report on the subject matter is materially misstated (qualified or adverse); or
- after accepting the engagement, the criteria or subject matter turns out to be inappropriate for an assurance engagement (qualified, adverse or disclaimer).

The practitioner may also need to consider withdrawing from the engagement when necessary. Further discussion on practical issues related to assurance reporting is provided in Section 4.5.
4. DELIVERING ASSURANCE ENGAGEMENTS

Process is key to delivery. The steps the professional accountant should take to deliver assurance engagements successfully are explained in this section.
4. DELIVERING ASSURANCE ENGAGEMENTS

4.1 Introduction

With the scope and structure of the assurance engagement established, the next stage for consideration by the practitioner is the execution of the assurance engagement. In the same way that a comprehensive understanding of assurance is required for the appropriate scoping of the engagement, there is a critical requirement for the practitioner to be appropriately versed and experienced in assurance to deliver the assurance engagement. Quality is paramount. There is a public expectation, and an ethical requirement as a chartered accountant, to deliver the assurance engagement with integrity, with respect to professional standards and guidelines and to the required standard of quality.

4.2 Accepting an engagement

When accepting an engagement, it is important that practitioners take the necessary steps to ensure quality and appropriately manage the engagement as a professional service. Considerations relate to:

- acting in accordance with the ethical and other professional standards expected of a professional service provider; and
- properly discharging their contractual, legal, regulatory or professional responsibilities.

Therefore, the practitioner accepts an assurance engagement only where the practitioner’s preliminary knowledge of the engagement circumstances indicates that the practitioner:

- satisfies relevant ethical and professional standards, including independence requirements (see 4.2.1) and applicable quality control requirements (see 4.2.2);
- complies with applicable legal and regulatory requirements and refers to available guidance materials;
- is satisfied that the engagement exhibits all of the following characteristics:
  - the subject matter is appropriate;
  - the criteria to be used are suitable and will be available to the intended users of the assurance report;
  - the practitioner will have access to sufficient appropriate evidence to support the conclusion;
  - the practitioner’s conclusion, in the form appropriate to either a reasonable or limited assurance engagement, is to be contained in a written report;
  - the practitioner is satisfied that there is a rational purpose for the engagement; and
  - the practitioner believes that the client has no intention to associate the practitioner’s name with the subject matter or subject matter information in an inappropriate manner.

- agrees to provide services only when the engagement team collectively possesses the necessary professional competencies, having regard to the nature of the assignment. As required by the Code of Ethics, the practitioner should not accept an assurance engagement if they are not satisfied that the persons who are to perform the engagement collectively possess the necessary professional competencies; and
- when appropriate, restricts the use and distribution of the assurance report to specified users.
The ability of the practitioner to perform the engagement and to report on the findings depends on information and access being provided by the responsible party. The nature of the information and access required will be agreed, formally and in writing, between the practitioner, the client, and where appropriate, other parties to the engagement. This requirement for information and access will be referred to in the engagement letter.

The practitioner ensures that the criteria that are to be applied during the engagement and in the assurance report are clearly communicated by including appropriate references in the engagement letter.

The practitioner reads the terms of the contract agreed between the responsible party and the users where relevant and considers the impact on the assurance engagement. For instance, unless specifically agreed in writing, the practitioner is not bound by any form of report or the terms of contract agreed between the client and any other party. This is because, for example, the terms of business between the client and its customer might impact on the ability of the practitioner to reach an independent conclusion in the proposed engagement. The terms of contract agreed between the client and its customer may prescribe specific wording to be used which may be inappropriate in an assurance report. Where the practitioner becomes aware that there is such an agreement and has identified that the form of report expected from the practitioner is inappropriate because the requirements of professional guidance would not be met, the practitioner considers the implications of this for the engagement, which may ultimately result in the practitioner declining the engagement.

The assurance report may also be received by a range of persons who are not party to the engagement. The practitioner does not normally intend to assume responsibility to persons who are not party to the engagement, but legal actions from such persons may nonetheless occur. The practitioner therefore needs to apply appropriate engagement acceptance procedures in order to assess the risks associated with taking on a particular engagement and accordingly whether to do so and, if so, on what terms. Where the practitioner accepts such an engagement, suitably rigorous internal risk management policies are applied to manage any increased level of risk. Guidance is available in AAF 04/06 Assurance engagements: Management of risk and liability.

### 4.2.1 Professional ethics and independence

Before accepting any professional engagement, the practitioner considers whether there are any ethical factors which should lead the practitioner to decline the appointment. Chartered accountants are subject to ethical and other guidance laid down by ICAEW, including the Fundamental Principles of the Code of Ethics, as set out in Statement 1.100 Introduction and Fundamental Principles, in performing any professional services. ICAEW's Code of Ethics is consistent with the Code of Ethics for Professional Accountants issued by the IESBA.

When performing assurance engagements other than audits and reviews, the practitioner needs to consider applicable independence requirements set out in Statement 1.291 Independence — Assurance Engagements. Statement 1.291 is based on a conceptual approach that takes into account threats to independence, accepted safeguards and the public interest. Under this approach, firms and members of assurance teams have an obligation to identify and evaluate circumstances and relationships that create threats to independence and, where necessary, to take appropriate action to eliminate these threats or to reduce them to an acceptable level by the application of safeguards. In particular, appropriate consideration should be given to independence both in mind and in appearance, in respect of the responsible party and the user. For example, the provision of assistance to a responsible party in preparing its report may result in a self-review threat if the impact of the assistance on the matter being reported on is subjective and material. If the practitioner identifies threats which are not insignificant, appropriate safeguards need to be considered and implemented. These might include:

- the use of independent teams where appropriate; and
- an independent review of the key judgements in the engagement.

The practitioner considers the objectivity requirements in Statement 1.280 Objectivity – all services which is applicable to all services. The practitioner also needs to consider existing relationships between the responsible party and the user. A threat to the practitioner’s objectivity or confidentiality requirements may arise when the practitioner performs services for clients whose interests are in conflict or the clients are in dispute with each other in relation to the matter or transaction in question. Statement 1.220 Conflict of interest sets out guidance on threats to objectivity or confidentiality when the practitioner provides services to multiple clients whose interests may be in conflict.

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1 Independence requirements in Statement 1.290 apply to audits and reviews. In the UK, the Ethical Standards issued by the APB apply to audits of financial statements.
4.2.2 Quality control
The practitioner performs the assurance engagement in the same professional manner as any other engagement and in accordance with the scope agreed and recorded in the engagement letter. If it is necessary to depart from the terms of the engagement letter, the practitioner agrees an amended scope of work in writing with the client and, where applicable, with other parties to the engagement. See 4.5.4 for further information on the circumstances where the practitioner is unable to obtain sufficient evidence.

When performing an assurance engagement under ISAE3000, the practitioner is subject to ISQC 1. ISQC 1 requires that a firm of professional accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with relevant professional standards and regulatory and legal requirements and that the assurance reports issued by the firm or engagement partners are appropriate in the circumstances.

The elements of such a system of quality control which are relevant to an individual engagement include leadership responsibilities for quality of the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance (in particular supervision, consultation, review and documentation) and monitoring.

4.2.3 Agreeing the terms of engagement with the client
When the practitioner is requested to provide an assurance report, it is important that there is clear understanding and agreement concerning the scope and purpose of the engagement between the practitioner, the client and where appropriate other engaging parties or the intended users who are receiving the report. To help avoid possible misunderstandings, the agreed terms are recorded in writing. AAF 04/06 sets out detailed matters to note in relation to the terms of engagement and how the overall risks of the engagement may be managed by the practitioner. However, these will need to be carefully applied to the particular engagement circumstances because AAF 04/06 primarily focuses on situations where the responsible party is the client.

Where the responsible party is the client
The responsible party may engage the practitioner to perform an assurance engagement to increase its own and users’ comfort over its operations performed in relation to the users or the information it has produced for the benefit of the users.

Where the responsible party engages the practitioner to perform an assurance engagement, it becomes responsible for enabling the practitioner to perform the necessary procedures to form the assurance conclusion. These include:

• Providing sufficient access for the practitioner to obtain information to understand the requirements of the engagement and to allow performance of the necessary procedures. This should include access to personnel within the responsible party, as well as to premises and relevant operational and other records. The responsible party should also take ownership for the completeness and accuracy of information supplied to the practitioner during the course of the engagement. If the responsible party (or any other party to the engagement) restricts the practitioner from obtaining the evidence required in reaching the assurance conclusion, this may be considered a material limitation on the scope of the practitioner’s work and may affect the assurance conclusion. See 4.4.1 for further guidance on dealing with circumstances where the responsible party restricts the practitioner’s access to obtaining necessary evidence.

• Disclosing significant changes or events that have occurred or are expected to occur that could reasonably be expected to have an effect on the assurance conclusion.

• Disclosing any illegal acts, fraud, or uncorrected errors attributable to the responsible party’s management or employees that have or may affect the users, and the responsible party’s whistle-blowing arrangements to the practitioner.

• Disclosing all other significant matters of which it is aware and might have a bearing on the subject matter or subject matter information, user needs or any other matters that affect the engagement scope or the procedures the practitioner performs, including the assurance report.

• Providing the practitioner with a letter of representation that includes confirmation of the responsible party’s responsibilities for the provision of information to the practitioner;
for assertion based reports the provision of a written assertion on the subject matter or subject matter information; the application of suitable criteria; and, where appropriate, that the responsible party has complied with the contractual requirements with users and other relevant standards and obligation.

Where the responsible party reports on the subject matter, this may contain descriptions of the operations performed, the evaluation or assessment of the actual performance, any other relevant information (eg, internal controls exercised over the operations) and any significant matters that the responsible party considers need to be brought to the attention of the users. The responsible party is responsible for the completeness, accuracy, validity and method of presentation of the information within the responsible party’s report. The assertions made in the report are also the responsibility of the responsible party and the practitioner obtains representations to that effect.

The practitioner considers the duty of care to his client. AAF 04/06 provides principles-based best practice guidance on the process that the practitioner undertakes when considering requests from the responsible party for assurance reports.

When the users are the client

Users may engage the practitioner to assess aspects of the operations performed, or information provided, by the responsible party with a view to increasing their confidence in these aspects and information. The practitioner considers the increased assurance engagement risk when accepting an engagement assigned by the users because the responsible party may not be part of the engagement which will impact the practitioner’s knowledge of the subject matter and evidence gathering process. In this type of engagement, the responsible party has a contractual (or other) obligation only to the users but not to the practitioner. It is therefore important for the practitioner to consider to what degree access to the information at the responsible party is required and whether such access is possible, as this may affect the assurance conclusion.

Where the users engage the practitioner to perform an assurance engagement, they are expected to fulfil their responsibilities and those are broadly in line with those for an engagement with the responsible party. Users are responsible for arranging access for the practitioner to the responsible party’s personnel, information and documentation. The users and the responsible party will need to contract or agree other arrangements that are suitable for the practitioner to obtain sufficient information and evidence to support conclusions. Similarly, access to personnel, premises and relevant operational and other records kept at the user’s premises may also be needed. The users may provide information on issues, changes or other information of significance that they are aware of and which may have an effect on the assurance conclusion.

Although a management representation letter from the responsible party may not be obtainable for this type of engagement, the practitioner may find it useful to obtain a written confirmation from the responsible party on the factual findings and its responsibilities in relation to the subject matter (eg, the terms of the contract) before releasing the draft report to the client. The practitioner may need to contract separately with the responsible party to ensure rights of access and agree protocols for obtaining information. The practitioner ensures that reporting protocols regarding who has access to draft or final reports and the rights and obligations (for example to confirm factual accuracy of findings) of the responsible party to comment on, or require the practitioner to reflect comments in, the report are agreed with the responsible party and where appropriate, with the users. The basis of such provision is agreed in writing and does not establish any additional duty of care outside the terms of the engagement.

The practitioner considers the duty of care to his client. While AAF 04/06 provides principles-based best practice guidance on the process the practitioner takes when considering requests for assurance reports, it is designed for circumstances where the responsible party is the client. The practitioner may wish to seek independent legal advice where appropriate.

### 4.3 Planning the engagement

- **Accepting an engagement**
- **Planning the engagement**
- **Performing the engagement**
- **Reporting**
The practitioner agrees with the client, and any other party to the engagement letter, the form of report that is appropriate for the purpose of the assurance engagement. In an assurance engagement, the practitioner is responsible for determining the nature, timing, and extent of evidence-gathering procedures required in accordance with the type of assurance report to be issued.

Planning is a continual and iterative process throughout the engagement and not a one-off task carried out up front. Considerations that are relevant during planning are often relevant during the performance of an assurance engagement. The practitioner for example considers the impact of unexpected events, changes in conditions or evidence obtained and revises the engagement strategy and plan as appropriate.

The practitioner obtains an understanding of the subject matter and other engagement circumstances, as considered in 3.5, sufficient to identify and assess the risks of the subject matter information being materially misstated and sufficient to design and perform evidence-gathering procedures so as to address these risks. This understanding provides the practitioner with a frame of reference for exercising professional judgement, for example, during planning, when:

- considering the characteristics of the subject matter and how it is best approached;
- assessing the suitability of criteria; and
- determining the nature, timing and extent of procedures for gathering evidence.

The practitioner assesses the appropriateness of the subject matter based on the characteristics discussed in 4.3.1. The practitioner also assesses the suitability of the criteria to evaluate or measure the subject matter referring to the characteristics listed in 3.6.1. The practitioner does not accept an assurance engagement unless the practitioner’s preliminary knowledge of the engagement circumstances indicates that the subject matter is appropriate, criteria are suitable and sufficient and appropriate evidence is likely to be available. After accepting the engagement, if the practitioner concludes that one of these aspects is not met, the practitioner may need to express:

- a qualified or adverse conclusion when the unsuitable criteria or inappropriate subject matter is likely to mislead the intended users;
- a qualified, or disclaimer of, conclusion in other cases including a scope limitation; or
- in some cases, the practitioner may consider withdrawing from the engagement.

The practitioner plans, and subsequently performs, an assurance engagement with an attitude of professional scepticism to obtain sufficient appropriate evidence which is determined in the light of the assurance engagement risk. Assurance engagement risk needs to be reduced to an acceptably low level in the circumstances of the engagement in order to express the agreed type of assurance conclusion – reasonable or limited assurance. In doing so, the practitioner considers materiality, and the quantity and quality of available evidence when planning and performing the engagement, in particular when determining the nature, timing and extent of evidence-gathering procedures. In a limited assurance engagement, the practitioner seeks to obtain less evidence than for a reasonable assurance engagement. This is in line with the conclusion which is worded to express a lesser degree of confidence for a limited assurance engagement than for a reasonable assurance engagement.

For both limited assurance and reasonable assurance engagements, the practitioner needs to exercise professional judgement to determine the appropriate degree of work to gather appropriate and sufficient evidence. This may affect, for example, the nature or methods of tests carried out, the nature, type or number of locations visited; or the sample sizes to collect the evidence appropriate for the engagement. Appendix 3 provides further assistance to readers in considering the degree of work required in relation to limited assurance engagements.

Finally, the scope and approach to be followed are documented, normally in the form of an engagement plan or work program, and communicated among the engagement team. It may be useful, especially in the case of a limited assurance engagement, for the practitioner to discuss various testing options with the client; however, the practitioner remains responsible for the ultimate selection of tests.
4.3.1 Subject matter
As discussed in 3.5, a subject matter may take a variety of forms. A clear understanding of the subject matter is essential when the practitioner performs an assurance engagement. This includes understanding why the users are interested in the subject matter and their relationship to it (e.g., they base their investment decision on the subject matter or they monitor the subject matter to calculate industry averages) because such an understanding affects whether the subject matter of the assurance engagement is appropriate for the purpose and whether the users would understand the assurance conclusion in an appropriate context. Therefore the practitioner considers whether the subject matter has been defined appropriately and whether the approach to be taken is suitable when accepting an engagement.

The practitioner will consider whether the engagement team possesses the relevant skills and competences before agreeing to undertake an assurance engagement on the subject matter. Subject matters have different characteristics, including the degree to which information about them is qualitative versus quantitative, objective versus subjective, historical versus prospective and whether they relate to a point in time or cover a period.

When undertaking an assurance engagement, therefore, the practitioner considers:

- whether the subject matter is identifiable and capable of being consistently evaluated or measured against criteria; and
- the availability and the persuasiveness of evidence.

The characteristics of the subject matter also affect the type of assurance as these in turn affect the criteria for assessing the information, evidence gathering and ultimately the assurance conclusion.

The assurance report notes any characteristics of particular relevance to the intended users of the report, if appropriate.

4.3.2 Types of criteria in assurance reporting on business activities
As indicated above the criteria that need to be used will vary according to the nature of the subject matter. In order to aid reader’s understanding, a series of examples that relate subject matters to criteria is set out below. The list utilises the same subject matters as were cited as examples in 3.2 and derived from the table in Appendix 2.

Table 3: Relating subject matter to criteria

<table>
<thead>
<tr>
<th>Areas</th>
<th>Example subject matter</th>
<th>Evaluation criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantitative information, including financial information and performance measures such as KPIs</td>
<td>Financial statements</td>
<td>International Financial Reporting Standards (IFRSs)</td>
</tr>
<tr>
<td></td>
<td>Performance of internally developed processes and controls</td>
<td>Company developed processes and controls (or methodologies) eg. for TV programme voting systems</td>
</tr>
<tr>
<td></td>
<td>Quality of performance</td>
<td>Pre-defined arrangements and data measurement methods</td>
</tr>
<tr>
<td></td>
<td>Achievement of operational/performance target</td>
<td>Commonly used definitions of KPIs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sponsor defined KPIs; eg, for performance targets set by a government department for an arms-length body</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Company defined processes and definitions in relation to benchmarking reports and analyses</td>
</tr>
<tr>
<td>Aspects of information technology such as information flows and security</td>
<td>Data and information security</td>
<td>AICPA SOC 2 and 3 frameworks for data centres and web trust</td>
</tr>
<tr>
<td></td>
<td>IT governance arrangement</td>
<td>Various IT governance references in ICAEW ITF 01/07</td>
</tr>
<tr>
<td>Management information flows</td>
<td>Performance of internally developed processes and controls</td>
<td>Documented internally developed procedures for managing and reporting on the effectiveness of the management information</td>
</tr>
<tr>
<td>Regulatory processes and compliance</td>
<td>Compliance with regulatory rules</td>
<td>UK government (or EU Regulation) together with any related guidance issued by the regulator</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Any specific regulatory undertakings eg, issued by the Competition Commission following an investigation</td>
</tr>
<tr>
<td></td>
<td>Compliance with other rules</td>
<td>Detailed rules of the industry association</td>
</tr>
</tbody>
</table>
### Table 3: Relating subject matter to criteria (continued)

<table>
<thead>
<tr>
<th>Areas</th>
<th>Example subject matter</th>
<th>Evaluation criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with contractual agreements</td>
<td>Allocation of royalties</td>
<td>The contractual clauses. May need to be supplemented by agreements with the contracting parties as to interpretations of clauses</td>
</tr>
<tr>
<td></td>
<td>Shared profits, shared cost saving</td>
<td>Joint venture agreements in relation to cost or profit sharing arrangements</td>
</tr>
<tr>
<td>Operations and projects, including outsourced operations</td>
<td>Internal processes and controls</td>
<td>Process and control objectives agreed between the service and user organisations.</td>
</tr>
<tr>
<td></td>
<td>Internal controls over financial reporting</td>
<td>AICPA SOC 1 framework (see Appendix 2)</td>
</tr>
<tr>
<td>Governance, strategy and management processes</td>
<td>Governance arrangement</td>
<td>Objectives set by standards defining bodies such as the OECD</td>
</tr>
<tr>
<td></td>
<td>Compliance with the Stewardship Code</td>
<td>Investor stewardship in accordance with the principles in the FRC Stewardship Code</td>
</tr>
<tr>
<td></td>
<td>Management processes</td>
<td>Process objectives set by the company</td>
</tr>
<tr>
<td>Environmental information</td>
<td>Greenhouse gas emissions</td>
<td>Greenhouse gas protocol to quantify greenhouse gas emissions</td>
</tr>
<tr>
<td></td>
<td>Risk assessment processes</td>
<td>Equator principles: when evaluating social and environmental risks in project financing for emerging markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Occupational Health and Safety Assessment Series 1800 to evaluate health and safety risks</td>
</tr>
<tr>
<td>The internal controls and internal control environment</td>
<td>Internal controls over financial reporting</td>
<td>COSO report, as used for example in Sarbanes-Oxley opinions</td>
</tr>
<tr>
<td></td>
<td>Corporate governance procedures</td>
<td>Turnbull Report and UK Corporate Governance Code</td>
</tr>
<tr>
<td></td>
<td>Internal controls over financial and operational controls</td>
<td>Company developed framework; eg, by reference to COSO or Turnbull Report</td>
</tr>
<tr>
<td>Ethics and behaviour</td>
<td>Anti-bribery procedures</td>
<td>Ministry of Justice guidance in relation to the Anti-Bribery and Corruption Act 2010</td>
</tr>
<tr>
<td></td>
<td>Ethical investment arrangement and its function</td>
<td>Standards as defined by independent bodies such as Transparency International and UN PRI</td>
</tr>
<tr>
<td>Financial processes</td>
<td>Cost saving achieved</td>
<td>Gershon guidelines on cost savings for certain public sector bodies</td>
</tr>
<tr>
<td></td>
<td>Control over client assets</td>
<td>Trust deeds on managing client funds, and principles contained in FSA CASS Rules</td>
</tr>
<tr>
<td></td>
<td>Pillar III solvency calculations</td>
<td>Basel report in relation to Pillar III solvency calculations</td>
</tr>
<tr>
<td></td>
<td>Compliance with FSA rules</td>
<td>FSA guidance in relation to FSA returns</td>
</tr>
</tbody>
</table>

**Control objectives**

Once the practitioner knows the subject matter of the engagement and which criteria will be used to evaluate it, specific objectives can be set to focus the detail of the fieldwork to obtain the evidence. Specific objectives would depend on the subject matter and may include an appropriate mix of both quantitative assertions eg, for KPIs, and qualitative claims eg, in relation to claims being made by management in their report.
The practitioner needs to consider the high level controls and processes within the organisation relevant to the subject matter as these help identify the risks that may be relevant to the assurance engagement, and which may need to be taken into account when planning the nature, timing and extent of the relevant assurance procedures. The practitioner does this by establishing the relevant information flows and associated risks.

It is from this combination of subject specific risks and the related process related risks that the practitioner determines the relevant processes and controls to focus on during the evidence gathering stage. The practitioner also makes decisions at this point about the relative balance of work between controls and substantive testing.

As an integral part of this process the practitioner also considers fraud risk and sets engagement objectives in relation to any significant risks.

### 4.3.3 Availability of evidence

When planning to gather evidence, it is important that the practitioner maintains a focus on the engagement objectives. Evidence should be relevant to the subject matter and the planned assurance conclusion. The practitioner is expected to maintain an attitude of professional scepticism throughout the engagement. This impacts on the selection of tests to be performed and the extent of testing.

**Materiality**

The practitioner considers materiality at the planning stage and continues to do so when performing an assurance engagement. In the context of reporting by management, information is material if its omission or misstatement could influence decisions that users make. In an assurance engagement, misstatements or omissions in the light of subject matter information are considered to be material if they, individually or in the aggregate, could influence decisions which users make. Materiality is considered in the context of both quantitative and qualitative factors such as size, the nature and extent of the effect of these factors on the evaluation or measurement of the subject matter, and the needs of the intended users of the assurance report. The practitioner uses professional judgement when assessing materiality and the relative importance of quantitative and qualitative factors in a particular engagement.

The quantitative aspect of materiality is generally considered in comparison to the magnitude of potential misstatement in relation to the presentation of the subject matter information. In contrast, the qualitative aspect of materiality primarily concerns the sensitivity of users in relation to the misstatement or the risk of misstatement of the subject matter information. The sensitivity of users would be affected by a variety of factors such as the area in which the misstatement occurs and its nature or history, and may change over time. For example, a service provider that has reported significant deficiencies in its internal controls in one year would be expected to have strengthened its procedures subsequently. Users of the service provider are likely to be sensitive to a relatively minor deficiency in the organisation’s internal controls in the following year as the level of expectation has changed. Because of this variability, the importance of exercising professional judgement in each engagement is paramount.

Materiality is a concept that is used throughout the engagement. For example, when determining the extent of testing to be carried out, the concept will be used to determine sample sizes. As the practitioner carries out their testing, exceptions may arise. Whether exceptions lead the assurance report to be qualified is a matter of professional judgement and, again, the practitioner needs to consider materiality in light of the user needs.

**Quality of evidence**

The same principles apply in evidence gathering for an assurance engagement as for a financial statement audit. The choices available to the practitioner include: inspection, observation, enquiry, confirmation, re-calculation, re-performance and analytical procedures.

Considerations in determining test selection include the reliability of the evidence the test will produce. For example:

- evidence is more reliable when it is obtained from independent sources outside the organisation;
- evidence that is generated internally is more reliable when the related controls applied by the organisation are effective;
• evidence obtained directly by the practitioner eg, observation of the application of a control, is more reliable than evidence obtained indirectly or by inference eg, enquiry about the application of a control;
• evidence is more reliable when documented, whether by paper, electronic, or other medium eg, a timely written record of a meeting is more reliable than a subsequent oral representation of the matters discussed; and
• evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.

The practitioner and engagement team will need to use judgement to decide on the procedures that will provide sufficient, appropriate evidence in the context of the assurance engagement. This is likely to include both tests of controls and substantive procedures.

Focus on subject matter and purpose of engagement
The nature of the evidence gathering and related tests will vary according to the nature of the subject matter and the related assurance being sought.

For instance:

• Fair description: The practitioner may read the client’s description and compare 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.

• Design of processes and controls eg, control procedures: the practitioner may evaluate the control design and walk through the control steps using one or two transactions to confirm their understanding. Tests might include specific checks on the operation of controls where this is necessary to confirm the detail of the design of the control.

• Operating effectiveness of controls: Having evaluated the design of controls as explained above, the practitioner may proceed to perform tests of operating effectiveness of the control. The practitioner may consider it appropriate to perform some substantive testing, depending on the nature of the engagement.

• Outcome eg, of profit sharing calculation: Having understood the background of the engagement and related risks, testing will focus on the engagement objectives. This may, or may not, require testing of control design and operation. However, whatever testing is performed, it will need to provide suitable evidence that supports the management assertion. If management of the responsible party has produced a complete report, the practitioner may also need to read the narrative report to ensure that it does not include any claims (or statements) that are inconsistent with the detailed findings. Where significant claims are being made in the narrative, the practitioner considers whether these should also be tested to an appropriate level.

Sample sizes
The choice of evidence gathering method primarily depends on the subject matter, the criteria, the sources of evidence and whether the engagement is providing reasonable or limited assurance.

In the case of a reasonable assurance engagement, the sample sizes selected to conduct tests and collect evidence need not be different from those determined using the principles applicable for a financial statement audit, because the risk of a material misstatement in the management assertion needs to be reduced to a similar acceptably low level.

Further guidance on sample sizes in limited assurance engagements is available in Appendix 3.

Representation letter
It is a requirement of assurance engagements conducted under ISAE 3000 that the practitioner should obtain a management representation letter. This letter needs to be tailored to suit the subject matter, the nature of the engagement and the risks and uncertainties involved in the work. However, the principles involved in the letter are the same as those for a financial statements audit. See 4.4.3 for further consideration.
4.4 Performing the engagement

4.4.1 Nature, timing and extent of tests
The practitioner obtains sufficient and appropriate evidence on which to base his conclusion. The nature, timing and extent of work may differ according to the type of assurance engagement. Sufficiency is the measure of the quantity of evidence while appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The 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 conclusion. The practitioner describes the tests performed or provides a summary to communicate sufficient information to support the assurance conclusion.

In particular, depending on the nature of the subject matter and as agreed on accepting the engagement, the practitioner may perform tests over a period of time or at a point in time. The practitioner therefore describes the timing of tests and considers the impact on the assurance conclusion.

The practitioner may be prevented by the responsible party from having access to personnel, premises or operational information during the course of the assignment. Similarly, there may be circumstances beyond the control of the practitioner or the client where sufficient appropriate evidence may not be available. The practitioner considers whether these restrictions have an impact on the assurance report. Where the practitioner’s work is affected by restricted access, the practitioner may need to consider whether to issue a qualified or adverse conclusion, issue a disclaimer of a conclusion, or where appropriate, withdraw from the engagement.

4.4.2 Using the work of internal auditors
A responsible party may have an internal audit department that as part of its audit plan performs tests of some aspects of the processes and operations which are also the subject of the assurance report. The practitioner may wish to consider whether it might be effective and efficient to use the results of testing performed by internal auditors to alter the nature, timing or extent of the work the practitioner otherwise might have performed in forming the assurance conclusion.
In such cases the practitioner assesses the independence, objectivity and competence of the internal auditors and the nature, scope, and subjectivity of the work performed by internal audit. Where the practitioner uses the work of internal auditors, the practitioner performs sufficient testing to obtain the principal evidence to reach an appropriate assurance conclusion. The practitioner also considers making reference to the internal auditors and their capability in the assurance report and clarifies the extent of the use of the work of the internal auditors.

4.4.3 Management representation letter
The practitioner normally obtains written representations or a form of written confirmation signed by management of the responsible party who are responsible for and knowledgeable about the subject matter, whether directly or through others within the responsible party. The refusal by management of the responsible party to provide written representations considered necessary by the practitioner may constitute a limitation on the scope of the engagement. The practitioner obtains a representation letter as close as possible, and in any case not after, the date of the assurance report.

Management representations cannot replace other evidence that the practitioner could reasonably be expected to be able to obtain. Where the practitioner is unable to obtain sufficient appropriate evidence regarding a matter that may have a material effect on the evaluation or measurement of the subject matter, when such evidence would ordinarily be expected to be available, the practitioner considers if it would constitute a limitation on the scope of the engagement even if management representations are available.

The practitioner is associated with a subject matter when the practitioner reports on information about that subject matter or consents to the use of the practitioner’s name in a professional connection with respect to that subject matter. If the practitioner learns that the client (or any other party) is inappropriately using the practitioner’s name in association with a subject matter, the practitioner requires the client to cease doing so. The practitioner may also consider what other steps may be needed, such as informing any known parties that may have received the report that inappropriately uses the practitioner’s name and seeking legal advice.

4.4.4 Considering subsequent events
The practitioner considers the effect on the subject matter information and on the assurance report of events up to the date of the assurance report. The extent of consideration of subsequent events depends on the extent to which such events may affect the subject matter information and the appropriateness of the practitioner’s conclusion.

4.4.5 Documentation
The practitioner documents matters that are significant and relevant to support the assurance report and to confirm that the engagement was performed as agreed with the client and as set out in the engagement letter. The documentation includes the description of the extent, nature and results of tests, sampling, evidence to support the practitioner’s conclusion and a record of the practitioner’s reasoning on significant matters that require the exercise of judgement and relevant facts.

4.5 Reporting

Based on the evidence obtained during the engagement, the practitioner concludes whether the assurance objective has been met. The objective would be for either a positive or negative assurance conclusion to be issued in accordance with the type of assurance, ie, reasonable or limited assurance, as agreed at the start of the engagement. The title of an assurance report includes the term ‘assurance’ to distinguish it from non-assurance engagements, for instance agreed-upon procedures engagements. The report draws the attention of the addressees to the basis of the practitioner’s work eg, ISAE 3000 and any appropriate technical releases.

4.5.1 Independent assurance report
Where the responsible party decides the scope of engagement or, in particular, provides the report on the subject matter, the practitioner communicates the fact, including how the scope of the report is defined and how the criteria have been selected, in the assurance report.
The practitioner also describes any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria in the assurance report.

In order for the assurance conclusion not to be misleading, the practitioner needs to consider whether the report on the subject matter provided by the responsible party is appropriate. The practitioner should discuss misstatements and deficiencies with the responsible party in the event that they may wish to rectify the information and, where significant, the assertion in their report. In the event that the responsible party refuses to do so, the practitioner considers the implication for the assurance report.

The assurance report reflects the agreement set out in the engagement letter and is supported by the work carried out by the practitioner. The report makes clear for whom it has been prepared, who may have access to it, and who is entitled to rely upon it and for what purpose, in accordance with the engagement terms. The assurance report states the restrictions on its replication in whole or in part in other published documents. The practitioner also refers to the guidance in AAF 04/06.

4.5.2 Elements of an assurance report

The key elements of the assurance report are described below. ISAE 3000 requires certain elements to be present in an assurance report and these are shown in bold. Other elements which may be appropriate in the context of particular assurance engagement together with additional matters discussed in this Assurance Sourcebook are also provided.

(a) A title indicating that the report is an independent assurance report

The practitioner’s report is expressed in a written report attached to the report on the subject matter. The title of the report includes the term ‘assurance’ to distinguish it from non-assurance engagements. While not required by ISAE 3000, it may be useful to refer to the type of assurance engagement (reasonable or limited).

(b) Engaging parties.

The report should be addressed to the engaging parties which may include users as well as the client.

(c) Identification of the applicable engagement letter.

(d) Restrictions on the use of the assurance report to the client, and other parties to the engagement letter where appropriate, and on the replication of the report in whole or in part.

The practitioner’s report makes clear for whom it is prepared and who is entitled to rely upon it and for what purpose.

(e) Limitation of the liability of the practitioner to the client.

The report should state any limitation of liability to the users which may include other parties to the engagement letter and potentially users as well as the client.

(f) An identification and description of the subject matter information and when appropriate, the subject matter

Identification of the subject matter or the subject matter information, the criteria used, a summary of the procedures performed by management and the results of those procedures (ie, whether the information prepared by management has been prepared in accordance with the criteria specified). It should also refer to management’s assertions or their report where available. It should clearly differentiate other information included in management’s report but outside the scope of the assurance engagement.

(g) The identification of the responsible party, users where appropriate, and the respective responsibilities of the responsible party and the practitioner

The report clearly states the scope (by reference to the engagement letter, whether the engagement is direct or attestation) and the responsibilities of management and the practitioner.

(h) Reference to applicable standards and guidance, including any appropriate technical releases

The report makes reference to relevant assurance standards such as ISAE 3000 and other relevant guidance.

(i) Identification of the criteria against which the subject matter is evaluated or measured.

(j) A summary of the work performed
The report should describe a summary of the work performed. In describing the work performed, the practitioner may describe the types of tested performed: eg, such as enquiry, inspection and review, observation and re-performance.

(k) Where appropriate, a description of any significant inherent or other limitations associated with the evaluation or measurement of the subject matter against the criteria

This will include inherent limitations associated with the evaluation or measurement of the subject matter against the criteria and any limitations on scope incurred during the work.

(l) Where the criteria used to evaluate or measure the subject matter are available only to specific recipients of the assurance report, or are relevant only for a specific purpose, a statement restricting the use of the assurance report to those intended recipients or that purpose and appropriate wording setting out matters related to the practitioner’s duty of care.

(m) The practitioner’s conclusion in the agreed form. Where the conclusion is qualified (ie, ‘except for’, adverse conclusion or disclaimer of a conclusion), the report includes a clear description of all reasons for the qualification(s) — including a description of the practitioner’s findings including sufficient details of errors and exceptions found. Where appropriate, the conclusion should inform the intended users of the context in which the practitioner’s conclusion is to be read.

(n) The name and signature of the firm/practitioner and the location of the office performing the engagement.

(o) The assurance report date.

4.5.3 The use of consistent wording

In drafting the assurance report it is important for the practitioner to be aware of the language being used. One could mistakenly use language that implies assurance which is inconsistent with the objectives of the engagement or with the wording that is used in the management assertion.

The key requirements are that the language in the assurance report should be:

- Consistent with the scope of work agreed in the engagement letter: ie, that it reflects accurately the scope of work agreed.
- Consistent with that used in the management assertions: ie, that it:
  - uses the same terminology;
  - uses language that is consistent with the nature of the assurance eg, data, process or whole report; and
  - makes reference to assurance in relation to the management assertions themselves rather than by direct reference to the subject matter (which might be construed by the user as a direct report by the practitioner);
- Internally consistent between the elements of the report itself, for example:
  - terminology should be consistent throughout;
  - should the scope of work agreed be data, then the description of the work performed and conclusion reached should refer to data and not processes or a whole report; and
  - the conclusion should not imply assurance over the operation of controls in the system used to calculate the data, unless that was both intended and a part of the scope of work agreed.

In order to achieve this degree of consistency it is expected that the practitioner will be involved in detailed discussions with the client regarding the wording not just of the assurance report but also of the management assertions in the course of the engagement.

4.5.4 Qualifications

Options for qualification of the report are set out in 3.8 and the importance of obtaining an understanding of engagement circumstances as they potentially impact the assurance conclusion is described in 4.3.

The practitioner may become aware that the evidence is insufficient to issue the agreed type of assurance conclusion. This may happen due to circumstances beyond the control of the responsible party (eg, necessary documentation is physically destroyed), the nature of work (eg, observation of certain procedures which happened before the commencement of the engagement), or the responsible party may impose limitations on the practitioner’s access to necessary evidence. Insufficient evidence does not constitute a valid reason for making a change in the agreed type of engagement, for instance, from a reasonable assurance engagement to a limited assurance engagement or from an assurance engagement to non-assurance engagement. If the practitioner
is unable to obtain sufficient appropriate evidence from other or alternative procedures to reach an assurance conclusion, the practitioner considers whether to issue a qualified or adverse conclusion, issue a disclaimer of a conclusion, or where appropriate, withdraw from the engagement.

The practitioner also considers other reporting responsibilities, including the appropriateness of communicating relevant matters of governance interest arising from the assurance engagement with those charged with governance.

The highly varied nature of subject matters which assurance reporting may cover means that practitioners are likely to encounter a broad range of less usual matters that also impact the wording of the assurance report. They need to be alert to these matters in order to ensure that the assurance report provides clarity to the users as to the conclusions being reached and draws the users’ attention to matters important to their understanding of the report. For example:

- **Emphasis of matter**: The practitioner may need to draw the reader’s attention to a fact or matters such as any inherent uncertainties already identified in the management report. If management do not make the required disclosures themselves, this will lead to a qualification.

- **Prior year qualifications**: Active consideration may need to be given to how to draft the current year’s assurance report when it appears in tables with prior year’s data, some of which was qualified in the relevant assurance report. This might be achieved through an emphasis of matter but the need may vary depending on a range of factors and each case needs to be considered in its own right.

In certain assertion based engagements management may include instances of non-compliance relevant to the subject matter in their own report. For example in a regulatory compliance engagement, management may voluntarily report a number of breaches of the regulations that they regard as minor, relative to the over-riding compliance requirements. Equally the assertions in the management report may or may not be qualified in respect of these matters. The practitioner still needs to decide:

- how significant these matters may be;
- whether they need to be referred to in the assurance report; and
- if so, whether they warrant a qualified report, reference through an emphasis of matter, or some other mechanism.

In evaluating the matters, the practitioner needs to consider:

- the underlying purpose of the engagement;
- the related needs of the users, including the results from any dialogue held with them at the outset or during the engagement; and
- materiality levels determined at the planning stage of the engagement (see 4.3.3). Note that certain users may expect to see details of individual transactions or controls, for example, those of the latter that have not operated as intended; however, they may equally not expect these same items to represent qualifications to the practitioner’s report. It may be that they expect the practitioner to exercise professional judgement as to the impact of such items on the overall subject matter. For this reason a dialogue with the user may be appropriate in some engagements. As a part of this process, consideration should be given to what might constitute a matter requiring qualification.

Professional judgement will be required in using these factors to determine the most appropriate response.

**4.5.5 Other reporting responsibilities**

The practitioner considers other information supplied by the responsible party or users. If such other information is inconsistent with the assurance conclusion or with other matters that the practitioner is or has become aware of, the practitioner discusses this with the client and may wish to draw attention to the fact in the assurance report.

The practitioner only signs the assurance report as agreed in the engagement letter if sufficient and appropriate evidence to support the assurance conclusion is obtained. Where either the responsible party or users subsequently ask the practitioner to provide reports on related matters which are not directly covered by the scope of the engagement, the practitioner is unlikely to be able to issue such reports. The practitioner may, however, be able to issue an alternative form of report which is capable of being supported by work performed as part of the engagement, such as a report of the factual findings of agreed-upon procedures. The practitioner agrees a separate engagement for such assignment with the party that requests an additional report.
4.5.6 Consideration of uncorrected errors, fraud or illegal acts

While performing procedures on the operations performed by third parties, the practitioner may become aware of uncorrected errors, fraud or illegal acts attributable to the responsible party's systems, management or employees that may affect the functions that interact with the users.

Unless clearly inconsequential, the practitioner determines from the responsible party whether this information has been communicated to the affected users. If the responsible party has not communicated this information to the users and is unwilling to do so, then the practitioner considers the implications for the engagement. Where the engagement is with the responsible party, the practitioner informs the responsible party's audit committee or other management with equivalent authority. If the audit committee or equivalent authority does not respond appropriately, the practitioner considers whether to resign from the engagement and whether any other action or reporting is appropriate.

The practitioner is generally not required to confirm with the users whether the responsible party has communicated such information. However, if the client is the user, the practitioner considers the materiality of the matter and whether the matter has been brought to the attention of the responsible party and promptly corrected. Depending on the outcome, the practitioner may need to take advice on further actions.

4.5.7 Inappropriate use

The practitioner is associated with a subject matter when reporting on information about the subject matter or consenting to the use of the practitioner’s name in a professional connection with respect to that subject matter. If the practitioner learns that the client (or any other party) is inappropriately using the practitioner’s name in association with a subject matter, the practitioner requires the client (or other party) to cease doing so. The practitioner may also consider what other steps may be needed, such as informing any known parties that may have received the report that inappropriately uses the practitioner’s name and seeking legal advice.

4.5.8 Management letter

During the course of an assurance engagement, practitioners may come across matters that may not be sufficiently significant to affect the assurance conclusion, but may nevertheless be useful for management. Such matters may include errors, deficiencies and risks related to the subject matter but which is not material to the conclusion, recommendations, and comment on the status of matters that were included in a similar report to management in previous periods.

Matters for communication to management are not a qualification of the assurance conclusion. These matters are therefore preferably communicated in a separate management letter rather than in the assurance report.

CASE STUDIES: Value to the users

<table>
<thead>
<tr>
<th>Performance metrics</th>
<th>Assurance over operational systems</th>
<th>UK Stewardship Code compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value to the users</strong></td>
<td>The users of the report are members of the public. The assurance report provided by the practitioner allows them to place more reliance on the report and its findings than if no assurance had been obtained.</td>
<td>The fact that the asset manager obtained an assurance report on the fairness of the description was publicly disclosed in its policy statement and this gave confidence to asset owners. Based on the experience, the asset manager believes that it would be possible to have assurance reporting covering the design suitability and operating effectiveness of the processes. They intend to consider whether to seek an assurance report on operating effectiveness of the processes in the next reporting period.</td>
</tr>
</tbody>
</table>
APPENDIX 1: GLOSSARY AND ABBREVIATIONS

Refer to Appendix 2 for a description of specific standards and guidance.

**AAF**
The Audit and Assurance Faculty of ICAEW. Technical Releases issued by AAF are numbered AAF nn/YY where nn is a sequential number and YY is the year of issue eg, AAF 01/06.

**AICPA**
The American Institute of Certified Public Accountants. In the United States, AICPA sets ethical standards for the profession and U.S. auditing standards for audits of private companies, non-profit organizations and federal, state and local governments.

**Assurance engagement**
An engagement in which a practitioner expresses 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. The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria.

**AUPs**
An agreed-upon procedures engagement is one in which a practitioner is engaged to carry out those procedures to which the practitioner and the entity and any appropriate third parties have agreed and to report on factual findings.

**Basel Accords, Pillar 3 Solvency**
Banking laws and regulations issued by the Basel Committee on Banking Supervision. Pillar 3 leverages the ability of market discipline to motivate prudent management by enhancing the degree of transparency in banks’ public reporting. It sets out the public disclosures that banks must make that lend greater insight into the adequacy of their capitalisation.

**Client**
The party that assigns the practitioner to carry out an engagement.

**COSO**
The Committee of Sponsoring Organizations of the Treadway Commission is a joint initiative of five United States private sector organisations dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.

**Criteria**
Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure.

**Engagement parties or parties to the engagement**
Parties that sign up to the letter of engagement. These consist of the assurance practitioner, the client and any other users that agreed to the terms of engagement.

**Equator Principles**
The Equator Principles (EPs) are a credit risk management framework for determining, assessing and managing environmental and social risk in Project Finance transactions. Project Finance is often used to fund the development and construction of major infrastructure and industrial projects. The EPs are adopted by financial institutions and are applied where total project capital costs exceed US$10m. The EPs are primarily intended to provide a minimum standard for due diligence to support responsible risk decision making.
The International Framework for Assurance Engagements (or the Framework)
This Framework issued by the IAASB defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply.

FRC
The Financial Reporting Council is the UK’s independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. It seeks to promote high standards of corporate governance through the UK Corporate Governance Code and sets standards for corporate reporting and actuarial practice as well as monitoring and enforcing accounting and auditing standards.

FSA
The FSA is an independent organisation set up by the UK government with responsibility for regulating financial services in the UK.

FSA CASS Rules
The Client Asset Sourcebook issued by the FSA contains rules and guidance for regulated firms concerning client assets.

Gershon review
The Gershon Efficiency Review was a review of efficiency in the UK public sector conducted in 2004-5 by Sir Peter Gershon.

IAASB
The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services, and by facilitating the convergence of international and national standards. In doing so, the IAASB enhances the quality and uniformity of practice throughout the world and strengthens public confidence in the global auditing and assurance profession.

ICAEW Code of Ethics
ICAEW’s Code of Ethics comprises Statements containing specific ethical requirements. The current version is based on the IFAC Code of Ethics issued in June 2009 (the IFAC Code was the predecessor of the IESBA Code).

IESBA
The International Ethics Standards Board for Accountants (IESBA) serves the public interest by setting high-quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics.

IESBA Code
The Code of Ethics for Professional Accountants issued by IESBA which establishes ethical requirements for professional accountants.

ISAs
International Standards on Auditing issued by the IAASB. ISAs consist of standards, which are prescriptive, and explanatory and other material designed to assist auditors in interpreting and applying the standards but which are not prescriptive. The ISAs are adopted by the Auditing Practices Board (APB, part of the FRC) for use in the UK and Ireland as ISAs (UK and Ireland).

ISAEs
International Standards on Assurance Engagements issued by the IAASB.

ISO 31000:2009
ISO 31000:2009 provides principles and generic guidelines on risk management. It is designed to be used by any public, private or community enterprise, association, group or individual and is not specific to any industry or sector.
ISREs
International Standards on Review Engagements issued by the IAASB.

ISRSs
International Standards on Related Services issued by the IAASB.

Limited assurance engagement
The objective of a limited assurance engagement is a reduction in assurance 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 a negative form of expression of the practitioner’s conclusion.

Occupational Health & Safety Assessment Series
The Occupational Health & Safety Assessment Series was developed to provide organisations with an internationally accepted system for managing their activities and processes in order to reduce or eliminate OH&S risks to employees.

OECD
The Organisation for Economic Co-operation and Development (OECD) aims to promote policies that will improve the economic and social well-being of people around the world. OECD uses its wealth of information on a broad range of topics to help governments foster prosperity and fight poverty through economic growth and financial stability. It helps ensure the environmental implications of economic and social development are taken into account.

Practitioner, or practitioners
Professional accountants in public practice.

Reasonable assurance engagement
The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner’s conclusion.

Responsible party
The responsible party is responsible for the operations, processes and associated data and report.

Sarbanes-Oxley (Act)
United States legislation providing regulations that publicly traded companies must adhere to relating to corporate governance, financial reporting and related matters.

SSAE
Statement on Standards for Attestation Engagements issued by the AICPA.

Subject matter and subject matter information
A subject matter is the matter of interest to the users for whose benefit an assurance engagement is conducted. Subject matter information is management’s formally stated assertion about the subject matter.

Turnbull Report

UK Corporate Governance Code
The UK Corporate Governance Code (formerly the Combined Code) issued by FRC sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. The Code contains broad principles and more specific provisions. Listed companies are required to report on how they have applied the main principles of the Code, and either to confirm that they have complied with the Code’s provisions or – where they have not – to provide an explanation.
UK Stewardship Code
Published by the FRC in July 2010, the UK Stewardship Code aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities by setting out good practice on engagement with investee companies to which the FRC believes institutional investors should aspire.

UN PRI
The United Nations-backed Principles for Responsible Investment Initiative is a network of international investors working together to put six Principles for Responsible Investment into practice.
APPENDIX 2: ASSURANCE STANDARDS, GUIDANCE AND PRACTICE

Standards and guidance

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<td>STANDARDS</td>
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| ISRS 4410                                                               | *Engagements to Compile Financial Information*  
ISRS 4410 establishes standards and provides guidance on the practitioner’s professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement. A revised standard, ISRS 4410 (Revised) was issued in 2012. |
| SSAE 16                                                                 | *Reporting on Controls at a Service Organization*  
Issued by AICPA in January 2010 to update and replace SAS 70 as the authoritative United States guidance for reporting on service organizations. SSAE 16 is intended to be consistent with ISAE 3402. |

<table>
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<th>GUIDANCE</th>
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| AAF 01/06                                                               | *Assurance reports on internal controls of service organisations made available to third parties*  
Issued in 2006 for practitioners engaged to give an assurance report on internal controls at service organisations. The scope of assurance reporting covers internal controls over the service the service organisation provides and is not restricted to controls related to financial reporting. The guidance contains reporting and assessment criteria for a range of financial service organisations.  
All ICAEW Audit and Assurance Faculty Technical Releases including AAF 01/06 are available from http://www.icaew.com/en/about-icaew/what-we-do/technical-releases/audit-technical-releases |
| AAF 01/06 Stewardship Supplement | *Stewardship Supplement to AAF 01/06*  
Issued to assist asset managers to obtain an assurance report on their compliance with the UK Stewardship Code published by the Financial Reporting Council (FRC) in 2010. The framework of assurance reporting follows that of AAF 01/06. The UK Stewardship Code was issued to enhance the quality of engagement between institutional investors and companies they invest in to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.  
Available from www.icaew.com/~/media/assurance/reassurance-chartered-accountant-services.ashx  
Guidance which addresses safeguards for accountants who prepare reports for inclusion in or with prospectuses and investment circular and for auditors whose audit report is to be included or referred to in a prospectus or other investment circulars. |
SSAE 16 is typically complemented by the Service Organization Control (SOC) Reporting Framework (SOC 1, 2, 3). SOC 1-3 are developed to provide a reporting framework for service organisations on their internal control over financial reporting (SOC 1), for IT related controls concerning, for example, cloud computing, managed service, data centres (SOC 2) and web trust (SOC 3). SOC 1-3 are issued by the AICPA. Access is restricted to AICPA members only.

Providing assurance on Client Assets to the Financial Services Authority
Published by the Auditing Practices Board (part of the FRC) in 2011. Bulletin 2011/2 provides guidance on the responsibilities of an auditor appointed to report on regulated firms’ compliance with the FSA’s Client Assets Sourcebook (CASS Rules).

Investment Reporting Standards Applicable to Public Reporting Engagements on Pro forma Financial Information
SIR 4000 contains basic principles and essential procedures with which a reporting accountant is required to comply in the conduct of an engagement to report on pro forma financial information, which is included within an investment circular prepared for issue in connection with a securities transaction governed wholly or in part by the laws and regulations of the United Kingdom.

Illustrations of application of standards and guidance

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<td>Compliance with contractual agreements</td>
<td>Allocation of royalties</td>
<td>The contractual clauses. May need to be supplemented by agreements with the contracting parties as to interpretations of clauses</td>
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<td>Internal controls</td>
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<td>Company developed framework; eg by reference to COSO or Turnbull report</td>
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### Vignettes

<p>| Quality performance indicators                                                                                                                                                                                                                                                                                                                                 |
|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Assurance over the quality performance of an NHS Foundation Trust. This involves assurance over a range of arrangements and some data assurance. The criteria are all defined by the regulatory body which also specifies that assurance should be sought over defined matters by each Foundation Trust.                                                                                                          |
| 2 | Assurance over the calculation of benchmarked KPIs comparing companies in an industry. The criteria were set out in the methodology for calculating the KPIs, which were based on independently collated data. The company wanted assurance to increase the credibility of the claims it was making about its performance relative to competitors.                                                                                   |
| 3 | Assurance over the value of a gas cargo on the high seas. The criteria were contained in the contract of sale and the freight agreement which specified how to calculate the volume and price at any point in time. The assurance was needed by the party selling the cargo to confirm the value of the cargo at the point of sale as a part of the sale agreement.                                    |
| 4 | The executive board of a PLC identified that the integrity of management information flow for which divisional management is responsible needs to be established. They are seeking independent assurance over the assertions made by divisional management.                                                                                                                   |
| 5 | Assurance over compliance with Irish tax legislation in relation to a UK based bank’s ability to act as an intermediary on behalf of a client. The criteria are all explicit and defined in the Irish tax legislation. The entity needed to obtain assurance, as defined by the legislation, to satisfy the Irish tax authorities.                         |
| 6 | Premier league football clubs are required to report material transactions, under section 26 of the rules of the premier league, which require assurance to be given to the club under the specific rules of the league, effectively giving rise to an assurance engagement, which involves inspecting players' contracts, and testing of a number of transactions, together with review and inquiry regarding policies relating to transfers and compensation and the club’s internal financial control policies and procedures. |
| 7 | Assurance over the continuing compliance with regulatory undertakings imposed on a company by the Competition Commission. The criteria are all explicit in the regulatory undertakings. The entity’s Audit Committee sought external assurance before reporting the state of compliance to the regulator in order to minimise the risk to the company and themselves. |
| 8 | Assurance over the company’s systems for allocating royalties to suppliers of content under licensing agreements. The criteria are all defined in the licensing agreements between the company and the content providers. The company needed to provide assurance to the content providers in order to gain their trust and commitment to allow their content to be distributed by the company. |
| 9 | Assurance over the proper compilation of a profit forecast. The criteria used were the International Venture Capital Association guidelines for assembling profits forecasts. The assurance was needed to add credibility to the business plan being presented to financiers. |
| 10 | Assurance over the split of profits in a joint venture operation. The criteria (basis) were defined in the joint venture agreement but needed clarification with the two parties. Both parties wanted assurance that the profit allocation had been calculated properly and in accordance with the agreement. |
| 11 | Assurance over the allocation of cost savings generated from a joint venture established to pool purchasing contracts. The criteria were all defined within the JV agreement, although clarification was required with the two parties as to interpretation of certain clauses. Both entities wanted independent assurance to minimise the risk of a misallocation. |
| 12 | Assurance over the effective business operation of an outsource services provider. The criteria are all explicit in the company’s documented systems for operating the administrative processes on behalf of clients. The company wanted to be able to demonstrate the continuing effectiveness of its systems to existing and potential customers as an incentive to maintain their outsource contracts. |</p>
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<tr>
<td>13 Assurance over the extent of carbon savings achieved by a government funded body to demonstrate the payback achieved from public money. The criteria comprised the methodology developed by the entity for calculating carbon savings, which needed to be published. The entity was obliged to obtain assurance to provide to its funding department.</td>
</tr>
<tr>
<td>14 Assurance over the state of internal control in a global business not subject to Sarbanes-Oxley. The COSO report was used to form the criteria for the work. The client wanted assurance to be able to demonstrate the quality of the underlying internal controls supporting its financial reporting even though it was not US listed.</td>
</tr>
<tr>
<td>15 Management wants independent assurance over the effective operation of risk management processes to provide additional confidence among its investor group. Their intention is to refer to the existence of the assurance report in the annual report to respond to the heightened level of interest in the information.</td>
</tr>
<tr>
<td>16 Assurance over the implementation of a code of ethical and social governance for a private equity house. The criteria are defined by the United Nations Principles for Responsible Investment. The entity’s management wanted assurance to help demonstrate the extent to which they had implemented the Code throughout their investment network of investment managers and the portfolio of companies under their control.</td>
</tr>
<tr>
<td>17 Assurance over the extent of compliance with ethical behaviour in the supply chain for a high street retailer. The criteria are defined within the ethical code developed by the client, which take account of internationally recognised ethical supply standards. The entity wanted to include an assurance opinion to lend greater credibility to its public sustainability reports.</td>
</tr>
<tr>
<td>18 Assurance over cost savings made against budget following a Gershon review for a public sector body. The criteria that define a saving are contained in the Gershon report itself. The entity was obliged to demonstrate its performance in a public report.</td>
</tr>
<tr>
<td>19 Assurance over the calculation by a bank of its Solvency II values. The criteria are contained in the relevant regulations and the bank’s methodology for calculating the relevant values. The bank needed assurance to lend credibility to the returns being made to the FSA.</td>
</tr>
<tr>
<td>20 FSA determines that certain internal controls of a regulated entity need further investigation. Upon discussion between the FSA, the regulated entity, and the practitioner acting as the skilled person as defined under s166, they decided to request an assurance report on the state of internal controls procedures.</td>
</tr>
<tr>
<td>21 Arrangements made between hotel owners and operators under a management agreement which include a requirement for specific assurance over the reporting of management fee calculations. Firms must provide an assurance report to clients to verify both the extraction of the inputs to the management fee calculation, and to confirm that the calculation of the management fee is in accordance with the terms of the management contract.</td>
</tr>
<tr>
<td>22 Assurance over the returns generated by private equity funds over the previous five years. The criteria were explicit in the calculation of the returns. The PE House wanted to include assurance over the returns in its marketing materials to lend added credibility to the claims being made.</td>
</tr>
</tbody>
</table>
The practitioner’s approach to business understanding and risk assessment is the same for both reasonable and limited assurance engagements. However, in a limited assurance engagement where the practitioner is providing a negative form of conclusion less evidence is required and therefore less testing may be performed. This can impact the type of procedures and tests employed, the sample sizes and even the number of locations visited.

The evaluation of the business and risk assessment includes identifying relevant processes and the controls in place over what could go wrong and the practitioner’s assessment of the design and implementation of these controls. The design and implementation can be tested by performing walk-throughs of these processes. In a limited assurance engagement, the practitioner may not perform the same volume of tests of operating effectiveness of identified controls as in a reasonable assurance engagement. However, it may be appropriate or even necessary to undertake limited testing of the operating effectiveness of controls depending on the nature of the subject matter. In any event the practitioner needs to remain alert to any instances which may indicate that a particular control has failed and use their professional judgement to determine whether further testing in the relevant area is required. In some cases, the failure in controls itself may lead to a qualified report.

In a reasonable assurance engagement, the practitioner uses recognised techniques to design procedures to provide persuasive evidence. In a limited assurance engagement the practitioner’s approach will be to perform enough work to enable them to state that ‘nothing has come to our attention.’

In a limited assurance engagement, substantive testing is less than that required to provide reasonable assurance and may involve:

• Selecting different techniques to perform substantive procedures. Techniques such as inquiry, observation and limited inspection are often used. Tests may also go into less detail: for example, the practitioner may decide that the internally generated evidence is sufficient rather than obtaining external confirmations.

• Performing fewer procedures for a particular assertion than would be the case for reasonable assurance where the practitioner may perform a combination of several procedures.

• Use of analytical procedures rather than substantive tests of detail.

• In a multi-site engagement, visiting fewer sites to obtain evidence.

• Altering sample selection techniques: for example, for a reasonable assurance engagement the practitioner may use a statistical sampling technique; whereas in a limited assurance engagement the practitioner may use judgement to select items that are both relevant and sufficient to support a negatively formed assurance conclusion.

In some limited assurance engagements, the practitioner may still need to use statistical sampling to select items for testing, for example, in the following circumstances:

• the population to be tested consists of a large number of homogenous items thereby preventing the selection of specific items based on identified criteria; or

• the practitioner has performed specific items testing but still needs some evidence over the residual population.

The sample sizes that are selected will depend upon the subject matter, the risks associated with the type of report and the required level of confidence. In addition to the nature of the subject matter, the practitioner should consider whether it involves data, a methodology or a whole report. The higher the risks involved the larger the sample sizes are likely to be.

When determining sample sizes the practitioner also takes into account the nature of any limitations imposed on testing when scoping the engagement.
Example:

- the practitioner might decide to visit a smaller number of sites but then perform testing over data at each site using samples where reasonable assurance is sought; whereas
- the practitioner providing a limited assurance opinion over a methodology might select a small sample of significant transactions to walk through the process to confirm the effectiveness of its operation.

The practitioner’s testing strategy should be determined as part of the engagement planning. Throughout the testing the practitioner should remain alert to any inconsistencies in specific areas that indicate the need to investigate these further. In doing so the practitioner also considers the risk implications and increases sample sizes if unacceptable error rates are detected when evaluating the implications and potential impacts. Because of the iterative nature inherent in assurance engagements, the practitioner should note that sample sizes for limited assurance engagements can reach those that might otherwise have been used for a reasonable assurance engagement.

Once the practitioner has made their selection of tests and related sample sizes, they should ask themselves the following questions:

- Is the testing sufficient to support the proposed conclusion?
- Is the testing fit for purpose?
- Could the practitioner provide reasonable assurance with only a small increase in testing? Should this be the case, then the practitioner may wish to discuss the matter with their client and amend the engagement letter.
(a) Performance metrics

A broadcaster that, in order to demonstrate its commitment to a public charter, publishes a set of objectives and wishes to obtain an assurance report to support its claim that it has met the objectives.

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<thead>
<tr>
<th>Performance metrics</th>
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<tr>
<td><strong>Background and need</strong></td>
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<tr>
<td><strong>Scope</strong></td>
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<tr>
<td><strong>Criteria</strong></td>
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<tr>
<td><strong>Evidence available</strong></td>
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<tr>
<td><strong>Value to the users</strong></td>
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## (b) Operational systems

A service organisation, which provides its customers with information processing infrastructure to manage and collect license fees. The reason for obtaining an assurance report is to demonstrate to its customers the quality of operational controls over the services it provides.

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<tr>
<th>Operational systems</th>
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| **Background and need** | A service organisation runs operational systems for its customers to manage the collection of their license fees. That involves using the customers’ database to analyse and evaluate information as well as managing and monitoring the resulting communications and information flows. Some of the processes involve further third parties contracted either with the customers or with the company.

The company was aware that one of its key contracts was due for re-tender and wanted to demonstrate both its commitment to provide a high quality service through evidence of the quality of control in the systems being operated. However, the Board were not able to define how this might be achieved to best effect. The Commercial director asked the audit partner whether he had any ideas. |

| **Scope** | The audit partner suggested that an assurance report could be provided to the existing customers over the operation of the systems run by the company. This was based around:

- The company agreeing with its customers a set of control objectives for the relevant systems.
- The company documenting the systems in a way that enabled controls to be related back to relevant objectives in a structured way.
- The design of the systems to be evaluated and a report provided to the company to enable them to address any control weaknesses. This report would be shared with the existing customers and include the management actions being taken by the company.
- A programme of testing designed to enable the practitioner to provide a reasonable assurance opinion over the effective operation of the controls of the company for a defined period that would be copied to the customers. |

| **Criteria** | The practitioner concluded that:

- The subject matter of this report was clear: the effective operation of the systems operated on behalf of the customers.
- The criteria would be clear provided that agreement could be reached between the specific customer and the company on the process objectives. |

| **Evidence available** | Evidence was readily available regarding:

- The design of controls – through documentation of the company’s systems, taking into account the control objectives agreed with the customers.
- The effective operation of controls – through the transactional and control evidence retained by the company in its systems.

The practitioner evaluated the design, tested the operation of controls and performed some substantive testing where the extent of any deficiencies was not clear. |

| **Value to the users** | The value of the engagement to the customers would be considerable as they would receive regular assessments on the state of internal control over key operational systems. Furthermore this would create a more open dialogue on the state of internal control and a mechanism for remedies of deficiencies if and when any problems arose.

The company would also obtain considerable business value through the improvements gained by the customers. |
(c) Stewardship compliance

An asset manager which manages investment funds for the asset owners and is covered by the UK Stewardship Code. The asset manager hopes to obtain an assurance report on its compliance to the Code by independent verification.

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<tr>
<td><strong>Background and need</strong></td>
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<tr>
<td>One of the UK’s leading asset managers decides to report on its stewardship in line with the UK Stewardship Code, issued by the FRC with a view to enhance the nature of engagement between asset managers acting on behalf of their asset owners and the boards of the companies they invest in, is relevant to its business. The asset manager is also covered by the ‘comply or explain’ requirement of the FSA in relation to the Code.</td>
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<tr>
<td>The asset manager chose to demonstrate its commitment to the Code by way of complying with all the requirements and have decided to obtain an assurance report on its engagement and voting processes as proposed in the Code.</td>
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<td>The asset manager has been reporting on its internal controls and receiving an assurance report for the past few years, and therefore found the new requirements relatively familiar.</td>
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<tr>
<td><strong>Scope</strong></td>
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<tr>
<td>The practitioner and the asset manager discussed and agreed that the asset manager is ready to adopt minimum assurance reporting and focus on a fair description of how the principles of the Code have been applied.</td>
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<tr>
<td>While there are seven principles in the Code, only four of these, including its management of conflicts of interest and voting activities, are considered suitable for objective evaluation. The scope of assurance report is thus determined to focus on these four objectives.</td>
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<tr>
<td><strong>Criteria</strong></td>
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<tr>
<td>The principles and guidance of the Code would provide the criteria for the asset manager’s policy statement. The fairness of the description will be assessed in terms of their relevance, completeness, reliability, neutrality and understandability.</td>
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<tr>
<td><strong>Evidence available</strong></td>
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<tr>
<td>The asset manager set out its stewardship policy in accordance with the Code and further supplemented it with detailed processes to implement it. The processes including monitoring arrangements were documented and made available to the practitioner.</td>
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<td>The practitioner discussed the systems with the asset manager to understand how stewardship affects its business conduct and, in this context, considered the linkage between the processes as described and associated policy objectives. Walk-through tests were performed to confirm this understanding.</td>
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<tr>
<td><strong>Value to the users</strong></td>
</tr>
<tr>
<td>The fact that the asset manager obtained an assurance report on the fairness of the description was publicly disclosed in its policy statement and this gave confidence to asset owners.</td>
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<td>Based on the experience, the asset manager believes that it would be possible to have assurance reporting covering the design suitability and operating effectiveness of the processes. They intend to consider whether to seek an assurance report on operating effectiveness of the processes in the next reporting period.</td>
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</table>
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The working group was convened by The Assurance Panel of the Audit and Assurance Faculty. The working group also benefited from input from members of the Technical and Practical Auditing Committee.
The ICAEW is a founder member of the Global Accounting Alliance, which represents over 775,000 professional accountants in over 165 countries worldwide, to promote quality services, share information and collaborate on important international issues.

ICAEW is a professional membership organisation, supporting over 138,000 chartered accountants around the world. Through our technical knowledge, skills and expertise, we provide insight and leadership to the global accountancy and finance profession.

Our members provide financial knowledge and guidance based on the highest professional, technical and ethical standards. We develop and support individuals, organisations and communities to help them achieve long-term, sustainable economic value.

Because of us, people can do business with confidence.

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