

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*.⁵ 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.

⁵ 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



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 (eg, 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

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

Table 3: Relating subject matter to criteria (continued)

Areas	Example subject matter	Evaluation criteria
Compliance with contractual agreements	Allocation of royalties	The contractual clauses. May need to be supplemented by agreements with the contracting parties as to interpretations of clauses
	Shared profits, shared cost saving	Joint venture agreements in relation to cost or profit sharing arrangements
Operations and projects, including outsourced operations	Internal processes and controls	Process and control objectives agreed between the service and user organisations.
	Internal controls over financial reporting	AICPA SOC 1 framework (see Appendix 2)
	Internal controls	Process and control objectives set by professional bodies, eg, ICAEW AAF 01/06 on investment operations
		Process and control requirements set by regulatory bodies such as the FSA
Governance, strategy and management processes	Governance arrangement	Objectives set by standards defining bodies such as the OECD
	Compliance with the Stewardship Code	Investor stewardship in accordance with the principles in the FRC Stewardship Code
	Management processes	Process objectives set by the company
Environmental information	Greenhouse gas emissions	Greenhouse gas protocol to quantify greenhouse gas emissions
	Risk assessment processes	Equator principles: when evaluating social and environmental risks in project financing for emerging markets
		The Occupational Health and Safety Assessment Series 1800 to evaluate health and safety risks
The internal controls and internal control environment	Internal controls over financial reporting	COSO report, as used for example in Sarbanes-Oxley opinions
	Corporate governance procedures	Turnbull Report and UK Corporate Governance Code
	Internal controls over financial and operational controls	Company developed framework; eg, by reference to COSO or Turnbull Report
Risk management systems and processes	Business risk management arrangements	Company's own criteria developed based on Turnbull Report and International Standard for Risk Management AS/NZ ISO 31000:2009
Ethics and behaviour	Anti-bribery procedures	Ministry of Justice guidance in relation to the Anti-Bribery and Corruption Act 2010
		OECD guidance on anti-bribery and corruption
	Ethical investment arrangement and its function	Standards as defined by independent bodies such as Transparency International and UN PRI
Financial processes	Cost saving achieved	Gershon guidelines on cost savings for certain public sector bodies
	Control over client assets	Trust deeds on managing client funds, and principles contained in FSA CASS Rules
	Pillar III solvency calculations	Basel report in relation to Pillar III solvency calculations
	Compliance with FSA rules	FSA guidance in relation to FSA returns

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.

CASE STUDIES: Evidence available

	Performance metrics	Assurance over operational systems	UK Stewardship Code compliance
Evidence available	<p>It was agreed that evidence would be readily available to support the application of the methodology in calculating the metrics. However, it was recognised by the company that, for practical reasons, evidence would be more difficult and expensive to collate in order to support an opinion over the metrics themselves. Accordingly the company decided to elect for assurance over application of the methodology.</p> <p>The practitioner evaluated the methodology by way of re-performance and the application of the methodology by way of examining the documented record.</p>	<p>Evidence was readily available regarding:</p> <ul style="list-style-type: none"> • 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. <p>The practitioner evaluated the design, tested the operation of controls and performed some substantive testing where the extent of any deficiencies was not clear.</p>	<p>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.</p> <p>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.</p>

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 but 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

	Performance metrics	Assurance over operational systems	UK Stewardship Code compliance
Value to the users	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.	<p>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.</p> <p>The company would also obtain considerable business value through the improvements gained by the customers.</p>	<p>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.</p> <p>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.</p>