



# TECHNICAL RELEASE

TECH03/13FSF

**EXPOSURE DRAFT AND INTERIM GUIDANCE FOR THE PERFORMANCE OF  
ASSURANCE WORK ON BENCHMARKS AND INDICES**

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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.

The Financial Services Faculty was established to become a world class centre for thought leadership on issues facing the financial services industry acting free from vested interest. It draws together professionals from across the financial services sector and from ICAEW members specialising in the sector and provides a range of information and services.

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## INTRODUCTION

Following the financial crisis, regulators discovered that several banks had been seeking to manipulate LIBOR and EURIBOR in their favour by submitting a higher or lower rate depending on their exposures and trading positions or to reduce the signalling effect to the market of a higher cost of borrowing. The impact of such manipulation influenced the price and settlement of a large number of contracts from interest charged on loans to derivative transactions.

The discovery of this manipulation prompted a number of investigations by various market, regulatory and governmental authorities such as the Commodity Futures Trading Commission (CFTC), the Wheatley Review, and the UK Parliamentary Commission on Banking Standards set up to consider standards and culture in banking in addition to a number of other on-going regulatory investigations, including those of IOSCO<sup>1</sup> and the EBA/ESMA<sup>2</sup>. Some of these investigations have called for some form of external assurance over the submission and compilation process to restore confidence in published benchmarks and indices where it is in the public or market interest.

ICAEW decided to develop guidance on providing external assurance on benchmarks and indices in anticipation that regulators and market participants will demand such assurance to restore confidence in important benchmarks. Our guidance aims to provide a consistent framework for the provision of assurance on the process, submissions and published rates across a range of different benchmarks and indices.

As noted in the guidance, while assurance gives the reader extra comfort as to the reliability of the information, it cannot be a substitute for clear rules and guidance concerning the reporting of information by submitters and compilers and clearly delineated responsibilities. Without such clarity, there will always be the risk of an expectation gap between preparers, assurers and users of the information.

The Wheatley Review was set up at the request of HMT to inform the wider policy response to the LIBOR scandal. The key findings were that there is a clear case for comprehensive reform, rather than replacement of LIBOR, not in least to avoid disruption and litigation around the \$300 trillion of contracts which reference the benchmark. It was also stated that going forward, the benchmark be explicitly supported by transaction data. Both of these findings facilitate the case for internal and external assurance providers being able to help restore confidence in this particular benchmark.

The Wheatley Review also acknowledges the on-going work and investigations, both domestically and internationally in this area. As such the plan for reform includes scope for further consultation and examination. There is the view that there would be benefit in having a broader framework for benchmarks on an international, cross industry level.

Though the LIBOR and EURIBOR scandals served as the catalyst for this project, ICAEW aims to produce a robust piece of guidance which is broad in application so as to be a resource for all practitioners engaged to provide assurance on a wide range of benchmarks or indices.

Further appendices with tailored details applicable to specific benchmarks or indices will be added to this guidance if required by the market or end users. Given the attention which has come to focus on various benchmarks in the wake of the LIBOR scandal, including alleged fixing within the energy markets, we hope that the guidance will be of value to stakeholders in a variety of industries and would welcome input from them, as well as the compilers and sponsors of such benchmarks.

It was noted in the Wheatley Review that ICAEW should work with the new LIBOR administrator. Given that demand for assurance will precede this appointment, and that this guidance is intended

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<sup>1</sup> International Organisation of Securities Commissions

<sup>2</sup> The European Banking Authority and the European Securities and Markets Authority

to cover a range of benchmarks, waiting for the appointment of the new administrator would cause unnecessary delays to the development of this guidance. Revisions will be possible in future as best practice and benchmarks continue to evolve. Guidance and considerations specific to a particular benchmark are contained within appendices to the guidance, which will be monitored for necessary revision.

## **Background**

### **Benchmarks and Indices**

The pervasiveness with which benchmarks or indices are woven into our financial landscape and activity cannot be underestimated. They are of vital importance across many global industries in addition to financial services including the energy sector and agriculture. Many benchmarks are global; they originate in a particular country or market, but are used across many jurisdictions. LIBOR is an example of this, developed originally in London for London banks, but extending to have a global reach and being used throughout the world on a daily basis, both for consumer products, businesses and within the utilities and financial industries. Refer to Appendix 8.

The International Organisation of Securities Commissions (IOSCO) is currently conducting a world-wide, board level review of benchmarks. This is expected to trigger further local examination of benchmarks and consideration of whether they remain fit for purpose.

Following the LIBOR and EURIBOR revelations, regulators all over the world came to focus on this particular benchmark with many starting investigations of their own. The UK authorities, led by the FSA (to be followed through by the Financial Conduct Authority 'FCA' following the regulatory restructure) are working with European and other international regulators and stakeholders to promote clear principles for effective global benchmarks. One of the principles put forth in the Wheatley Review is for a regular external assurance of data submitted to the benchmark, which this guidance aims to help facilitate. Since the interest rate benchmarks scandal there have also been concerns over energy markets, both in the USA and UK, demonstrating the clear need for the IOSCO review, and the restoration of integrity across a variety of benchmarks.

The needs of stakeholders will vary from benchmark to benchmark, and each of these stakeholders may have varying expectations. As such, this guidance is structured as a framework which can be used to consider the processes and data used in the compilation or construction of a variety of benchmarks, to allow practitioners to meet the needs of, as well as managing the expectations of their audience.

### **Users and Stakeholders**

The guidance that follows is aimed at:

- Audit and assurance practitioners who will undertake to express an opinion on such submissions and compilations.
- Directors of companies and/or institutions which contribute input data to benchmarks or indices compilation.
- Compilers and publishers of benchmarks and indices.

The guidance may also be of interest to administrators, regulators, exchanges or organisations that establish benchmarks or indices, referred to in this guidance as Benchmark or Index Creators and Administrators (BICA) and other stakeholders concerned with the transparency and integrity of the construction of the benchmark or index.

### Why the need for assurance

The Wheatley Review<sup>3</sup> noted that “Assurance from external auditors can play a major role in instilling public confidence and establishing credibility to LIBOR. External assurance provides an independent review that published benchmarks are fairly presented as well as firm systems and internal controls used to support LIBOR submissions and internal governance arrangements.”

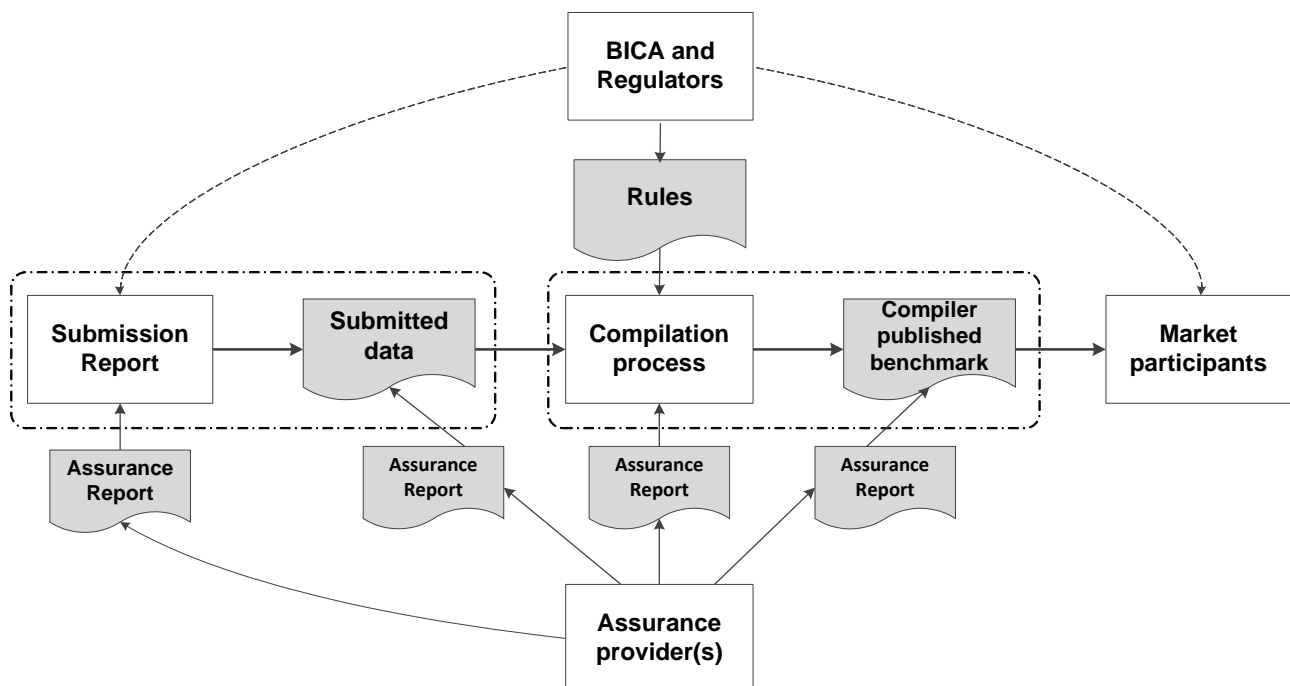
The IAASB’s International Framework for Assurance Engagements<sup>4</sup> defines an ‘assurance engagement’ as an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users (other than the responsible party) about the outcome of the evaluation of measurement of a subject matter against criteria.

One of the preconditions for acceptance of an assurance engagement is the existence of assessment criteria (here the guidelines and rules governing submissions to and compilation of the benchmark or index) with sufficient clarity and precision. Guidelines and rules which are insufficiently clear and precise will inherently undermine the quality of the benchmark. Where a practitioner is unable to conclude that the guidelines and rules are sufficiently clear and precise it may affect their acceptance of the assurance engagement. They should consider reporting concerns to the party engaging them and the administrator of the benchmark or index. In such a situation, it might still be possible for the practitioner to opine on the controls and processes of the submitter or compiler if they are adequately described.

In such circumstances a practitioner may be asked to provide a separate private advisory engagement to review the guidance and rules to assess where potential enhancements could be made to increase the underlying quality of the benchmark or index.

This guidance does not cover such an engagement. Practitioners should refer to the ICAEW Assurance Sourcebook 2.4.4 Consultancy services for further considerations relevant to that type of engagement.

In the case of LIBOR and similar indices, assurance provides increased confidence in the following ways:



<sup>3</sup> Paragraph 4.29

<sup>4</sup> Paragraph 7

Assurance carried out at the submitter level gives the compiler confidence that the benchmark or index it is preparing is based on the information that it has requested – which indirectly gives confidence to market participants and regulators.

Assurance carried out at the compiler level gives market participants and regulators direct confidence over the integrity of the process by which the benchmark has been prepared, although on its own does not provide assurance on input data it has received from external submitter.

Taken together, these two sets of assurance should give users confidence that the benchmarks or indices they are using are reliable and produced in accordance with the guidance and rules set out by the administrator, regulator, exchange or body that established it, referred to in this guidance as the Benchmark or Index Creators and Administrators (BICA). The perceived integrity of a benchmark will be impacted by the level of assurance over the end to end process of benchmark compilation, from submission to compilation. Depending upon the nature of the benchmark and the incentive or compulsion to participate in the benchmark, the possibility of and perceived need for assurance may become a cost of doing business for those who are the ultimate benchmark users as the costs of assurance are passed on, or it may deter participation and raise questions about the wider utility of the benchmark if the benefits cannot be considered to outweigh the costs.

Assurance over LIBOR submissions is currently a regulatory requirement for specific banks and following the recommendations proposed as part of the Wheatley Review of LIBOR it is to become a legal requirement for all submitting banks when the Finance Bill becomes law in 2013. Outside of the UK local legal and regulatory requirements will apply. It is the duty of the organisation's Directors to ensure they are compliant with laws and regulations within the relevant territories. The EBA and ESMA are currently consulting on proposals for greater supervision and regulation of benchmarks at a European level.

## **Developing the guidance**

### **The case for guidance and its scope**

Currently, there is no authoritative guidance which considers the provision of assurance over benchmark or index submissions and compilation.

The Wheatley Review<sup>5</sup> noted that “Assurance from external auditors can play a major role in instilling public confidence and establishing credibility to LIBOR. External assurance provides an independent review that published benchmarks and indices are fairly presented as well as firm systems and internal controls used to support LIBOR submissions and internal governance arrangements.”

It is also considered that there is a demand, both from the industry and the wider public for action to be taken which will contribute to the restoration of public confidence in various benchmarks or indices.

It should be noted that the term ‘audit’ as used by Wheatley is considered to mean ‘assurance’ as opposed to a financial statements audit.

Guidance will also help facilitate a common approach to the provision of assurance across the profession. When considering the rules for LIBOR submission in particular it must be borne in mind that judgements have to be made in the submission of LIBOR, even in fully liquid markets. For example trades made, even in high volume, may not be representative of the definition due to size or counterparty for example. As such those responsible for submission make judgements about the adjustments required to use actual trade data to meet the LIBOR definition, which adds inherent complexity to the process.

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<sup>5</sup> Paragraph 2.49



This guidance, through the introduction of levels which the practitioner can use to consider the amount of judgement needed by the submitter to make a particular submission will facilitate the creation of efficient and appropriate assurance procedures as required to form a conclusion on what may be relatively complex submissions.

## **Status**

This exposure draft is also issued as interim guidance and may be subject to changes following the consultation period. It is not mandatory but practitioners may wish to have regard to it in conducting assurance engagements on benchmarks and indices. Professional judgement should be used in its application.

## **Our approach**

The ICAEW Financial Services Faculty established a working group to help develop guidance for audit and assurance practitioners.

The working party has been chaired by Mike Lloyd of Deloitte, who is also chair of the ICAEW Banking Committee.

Other ICAEW parties including the Assurance Panel, the Banking Committee, the Internal Audit Committee and the Technical and Practical Assurance Committee have contributed to our work via review in line with ICAEW best practice to ensure robust and technically accurate guidance is produced for our members. ICAEW has sought and obtained input from regulators, banking, securities and accountancy on the development of this Exposure Draft, although they have not been asked to approve or endorse it.

## **Anticipated benefits**

Broad, clear guidance will help work toward industry and wider goals of increased market confidence. Practitioners applying a common set of principles and guidelines to perform assurance work will promote consistency and clarity of end reporting based on a common opinion. Public guidance will improve transparency over the processes and mechanisms surrounding benchmarks and indices. If considered useful by specific industries, the appendices in this document can be expanded to cover specific, for example, control objectives for other industries and their associated benchmarks.

## **Invitation to comment**

We would welcome comments from interested parties. We would specifically invite the following parties to comment:

- Audit and assurance practitioners
- Regulators
- Price Reporting Agency (PRA) or other Benchmark or Index creator
- Benchmark contributors
- Data compilation firms
- Benchmark and index users
- Legal professionals

For a full list of consultation questions, please see appendix 10.

Comment letters to be received by **8 April 2013**. Please send via email as a Word file to [philippa.kelly@icaew.com](mailto:philippa.kelly@icaew.com) or via post to Philippa Kelly – Technical Strategy, ICAEW, PO Box 433, Chartered Accountants Hall, Moorgate Place, London, EC2P 2BJ.

It would help the analysis of responses if organisations could provide information on their size and activities and if individual commentators could describe their background and experience.

Respondents should indicate specifically whether their comments are to be treated as confidential. Standard disclosures in responses received by email will be disregarded for this purpose. Unless otherwise stated, responses will be regarded as being on the public record.

# GUIDANCE FOR THE PERFORMANCE OF ASSURANCE WORK ON BENCHMARKS AND INDICES



GUIDANCE FOR THE PERFORMANCE OF ASSURANCE WORK ON BENCHMARKS AND INDICES

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## Users of this guidance

1. This guidance is aimed at:
  - Audit and assurance practitioners who will undertake to express an opinion on such submissions and compilations.
  - Directors of companies and/or institutions which contribute input data to benchmarks or indices compilation.
  - Compilers and publishers of benchmarks and indices.
2. The guidance may also be of interest to administrators, regulators, exchanges or organisations that establish benchmarks or indices, referred to in this guidance as Benchmark or Index Creators and Administrators (BICA) and other stakeholders concerned with the transparency and integrity of the construction of the benchmark or index.

## Introduction and overview of the reporting process

3. Benchmarks and indices are a fundamental part of the working of many markets. These indicators which are calculated or observed on an hourly, daily, weekly, monthly, or other periodic basis underpin trillions of dollars of transactions worldwide. Their proper operation is vital for the smooth running of the economy and for investor confidence.
4. The confidence of users may be undermined where the basis of preparation of the relevant benchmark or index has inherent limitations. This may occur where:
  - key information is omitted;
  - the benchmark or index is based on estimates, assumptions and/or forecast information; or
  - the basis of preparation is ambiguous, allowing for a variety of permitted applications at the expense of consistency and comparability.
5. While assurance gives the reader extra comfort as to the reliability of the information, it cannot be a substitute for clear rules and guidance concerning the reporting of information by submitters and/or compilers and clearly delineated responsibilities. Without such clarity, there will always be the risk of an expectation gap between preparers, assurers and users of the information which in turn is likely to impact market confidence.
6. The objective of this guidance is to assist practitioners in accepting, designing, planning, performing and reporting upon a benchmark assurance engagement. Practitioners may also wish to consider the ICAEW's Assurance Sourcebook. The guidance covers respective responsibilities (described in further detail below), different levels of reporting, and different reporting relationships.

## Respective responsibilities

7. As noted above, the reliability of a benchmark or index will be heavily influenced by the basis of preparation. An index based on relevant, robust information arising from actual (historical) events is expected to be far more reliable than one based on estimates or where the basis of preparation is open to multiple interpretations. The party that creates the requirement and formula for the benchmark/index assumes responsibility for the appropriateness of that measure. While they may invite comments from contributors, compilers, practitioners and other stakeholders, the final decision as to whether it is fit for purpose rests with the party that sets or imposes the benchmark or index.

8. The contributors and compilers are responsible for preparing and compiling (respectively) information in accordance with the rules and guidance issued by the originating party. Where rules or guidance are ambiguous, benchmarks and indices are more likely to be unreliable. In those circumstances, the contributor or compiler sets out how they have interpreted those matters in the basis of preparation attached to the benchmark or index. That interpretation should be appropriate in the context of the rules and guidance and reflects the relevant facts and circumstances, to the best of management's knowledge. The reported information must have the ability to be read and understood in the absence of any assurance.
9. The role of practitioners is to assess whether the information reported by the contributor or compiler is supported by the available evidence. Where insufficient evidence exists this may impact engagement acceptance or result in a qualified assurance conclusion. Practitioners do not assume the responsibilities of the reporting party or the party who created the rules and guidance for the benchmark or index. Nor do practitioners determine the correct interpretation of ambiguous rules or guidance, although practitioners consider whether the interpretation applied is clear and available to the reader of the assurance report.

### Accepting and performing the assurance engagement

10. The IAASB's<sup>6</sup> International Framework includes pre-conditions for acceptance of an assurance engagement. As stated in paragraph 17 of the Framework:

'A practitioner accepts an assurance engagement only where the practitioner's preliminary knowledge of the engagement circumstances indicates that:

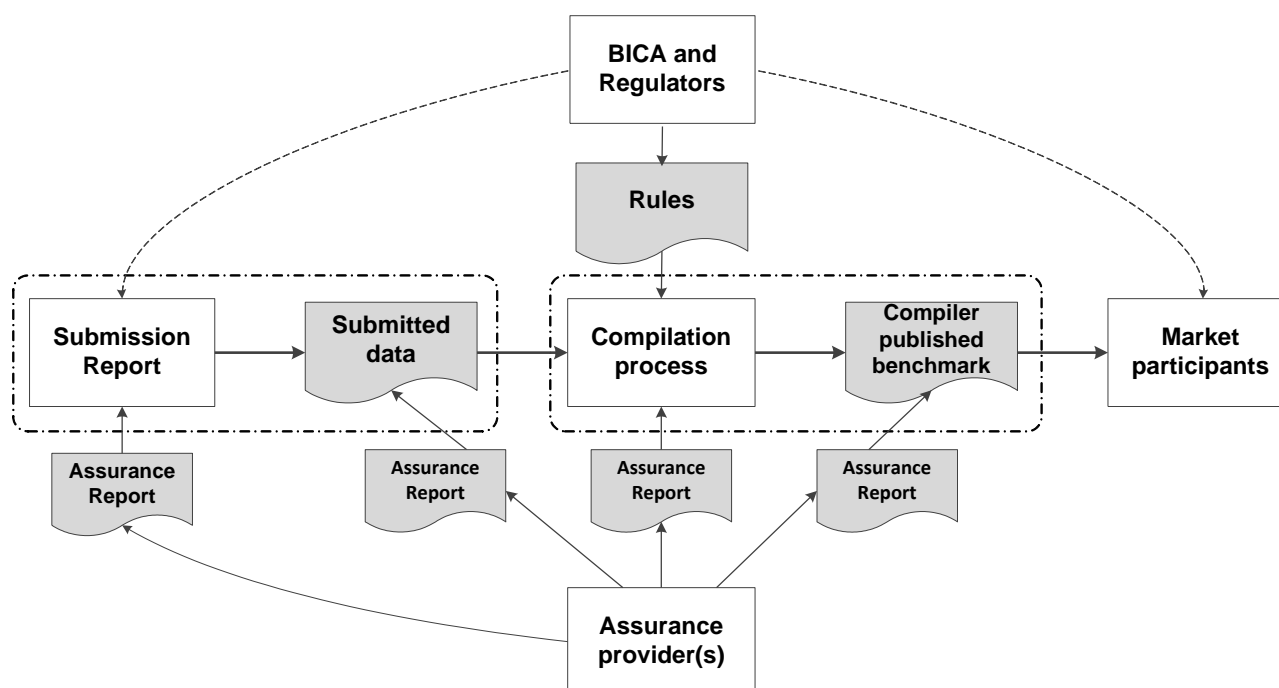
- (a) Relevant ethical requirements, such as independence and professional competence will be satisfied; and
- (b) The engagement exhibits all of the following characteristics:
  - i. The subject matter is *appropriate*;
  - ii. The criteria to be used are *suitable* and are available to the intended users;
  - iii. The practitioner has access to sufficient appropriate evidence to support the practitioner's conclusion;
  - iv. The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
  - v. The practitioner is satisfied that there is a rational purpose for the engagement. If there is a significant limitation on the scope of the practitioner's work...it may be unlikely that the engagement has a rational purpose.'
11. The subjective words 'appropriate' and 'suitable' are explained in more detail in paragraphs 33 and 36 respectively of the International Framework. A significant limitation on the scope of the practitioner's work and the risk of an inappropriate association with the subject matter are two examples given of where a rational purpose may not exist.
12. In order to meet the precondition for suitable criteria (as described in paragraph 36 of the IAASB's Framework) the guidelines and rules governing measurement of, submission to and compilation of the benchmark or index will need to be relevant, sufficiently complete, reliable, free from bias as well as sufficiently clear and precise. Guidelines and rules which are without these characteristics will inherently undermine the quality of the benchmark and

<sup>6</sup> International Auditing and Assurance Standards Board

may impact the practitioner's acceptance of any assurance engagement. A practitioner's acceptance of an assurance engagement will therefore add a level of credibility to the guidance and rules. Where a practitioner is unable to conclude that the guidelines and rules are sufficiently clear and precise they should consider whether they should accept the engagement and, if they do accept the engagement, consider reporting concerns to the party engaging them and the sponsor or administrator of the benchmark or index. In such a situation, it might still be possible for the practitioner to opine on the controls and processes of the submitter or compiler.

13. Notwithstanding the responsibility of the party who sets or imposes the benchmark for ensuring it is fit for purpose, practitioners should consider whether giving assurance in situations where the basis of preparation is not clearly stated, or where clearly stated appears likely to mislead users not familiar with that industry or benchmark, may convey to the reader an unwarranted level or reliability. Practitioners may decide that it is appropriate to draw the reader's attention to areas of perceived inherent limitation in the measurement or preparation of the information that has been assured, such as alternate measures available or factors impacting the reliability of information reported (refer to 'Introduction and overview of the reporting process' for further examples).
14. In such circumstances practitioners may be asked to provide a separate advisory engagement to review the guidance and rules to assess where potential enhancements could be made to increase the underlying quality of the benchmark or index and make it more assure able. This would be requested by the BICA.
15. This guidance does not cover such an engagement. Practitioners should refer to the ICAEW Assurance Sourcebook 2.4.4 Consultancy services for further considerations relevant to that type of engagement, as well as section 4.2.1 on Professional Ethics and Independence.
16. In the case of submission based benchmarks and indices, assurance provides increased confidence in the following ways:
  - Assurance carried out at the submitter level gives the compiler confidence that the benchmark or index it is preparing is based on the guidelines and rules it has set out. Such assurance gives confidence to market participants, regulators and other interested parties.
  - Assurance carried out at the compiler level gives market participants and regulators direct confidence over the integrity of the process by which the benchmark has been prepared, although on its own does not provide assurance on input data it has received from external submitter.





17. Taken together, these two sets of assurance would give users confidence that the benchmarks or indices they are using are reliable. The perceived integrity of a benchmark or index will be affected by the level of assurance which is felt to be required over the end to end process from submission to compilation. Depending upon the nature of the benchmark or index and the incentive or compulsion to participate in the benchmark, the possibility of and perceived need for assurance may become a cost of doing business for those who are the ultimate benchmark users as the costs of assurance are passed on, or it may deter participation and raise questions about the wider utility of the benchmark if the benefits cannot be considered to outweigh the costs.
18. As with any audit or assurance engagement there may be an expectations gap between the work actually undertaken by the providers of the assurance and what the public and other financial information users perceive the assurance provides. Well defined terms of engagement with clear description of work performed, together with clear articulation of practitioners' responsibilities with those of the submitter, compiler or BICA, will help narrow any such expectations gap.
19. Given the varying nature of benchmarks and indices, ranging from the complex, like LIBOR, to a more straightforward factual mathematical index based on an extraction of market data an assurance engagement should be able to provide reasonable assurance if desired, but it is unlikely that a stronger assurance conclusion will be possible. Should this be required the example reporting given in appendix 5 would have to be adapted to reflect this.

### Types of engagement and assurance

20. The IAASB's International Framework for Assurance Engagements<sup>7</sup> defines an 'assurance engagement' as 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 of measurement of a subject matter against criteria.
21. A key question is whether the assurance should be on data, or on the processes used to create it, or both. There will of course be other areas which submitters, compilers or regulators would benefit from assurance work. This guidance is not designed to be an exhaustive list of the types of potential engagement, but will lay out what constitutes a base

<sup>7</sup> Paragraph 7

case of assurance engagements which could form the foundation of, and be complementary to other engagements using other relevant guidance.

22.

Type of engagement	Assurance on submissions		Assurance on compilation	
	Process	Data	Process	Data
Subject matter	Systems and controls put in place to submit data	Submitted data	Systems and controls put in place to compile index	Published benchmark, index or reference rate
Subject matter information	Control objectives, design of control procedures, operation of control procedures.	Input data (eg underlying trades), estimation/calculation methodology, control procedures.	Control objectives, design of control procedures, operation of control procedures	Data provided by submitters, estimation/calculation methodology, control procedures
Criteria	Rules on data submission controls established by BICA and/or regulator.	Rules on calculation or estimation of submissions established by BICA and/or regulator.	Rules on data compilation controls established by BICA and/or regulator.	Rules and guidelines relating to input data to be submitted and how the benchmark or index is compiled from submitted data.
Does not (on its own) provide assurance on:	Controls over underlying market transactions.	Transactions or market information underpinning input data.	Controls in place at submitter.	Accuracy of data provided by submitters.

23. The most efficient and effective approach to providing assurance is likely to be on the benchmark or index contribution processes at the submitter level and assurance on the compilation processes at the compiler. Many benchmarks and indices are compiled from daily submissions. Some controls over submissions may only be capable of contemporaneous observation. As a result, assurance on submission or input data might require work to be performed concurrently with submissions for use by the assurance provider (potentially by Internal Audit), rather than periodically. Assurance on the processes of compilation is likely to be able to be performed with more ease retrospectively (whether annually or periodically). However this will depend on the nature of the benchmark or index.
24. Regulators or BICA may request other forms of assurance if they wish under their own powers. Compiling and contributing firms could also request private assurance engagements as desired; reporting in such an engagement could take the form of a long form, narrative report with no opinion or conclusion presented.
25. There is a relevant standard for assurance of these types of subject matter, International Standard on Assurance Engagements 3000. This standard provides a ready-made framework for assurance on both data and systems. It also requires practitioners applying ISAE 3000 to comply with:

## International Standard on Quality Control 1<sup>8</sup>

26. This provides users of the assurance providers' opinion with reassurance that the work has been undertaken to a professional standard. It includes:

- Leadership responsibilities for quality within the firm – requiring establishment of a quality control regime
- Ethical requirements – independence and objectivity (see below), dealing with conflicts of interest, and a duty to act with integrity and not be associated with anything misleading
- Acceptance and continuance of client relationships and specific engagements – processes to consider the integrity of clients and that practitioners only accept work that they have the competence, capability, time and resources to perform
- Human resources – to ensure that those carrying out the work have the necessary skills and experience
- Engagement performance – policies are in place to perform the work in accordance with standards, legal and regulatory requirements, including consultation processes to deal with difficulties and resolve differences of opinion, carry out engagement quality control review and support opinions with necessary documentation
- Monitoring – to provide reasonable assurance that all of the areas above are operating satisfactorily.

## The International Ethics Standards Board for Accountants' Code of Ethics<sup>9</sup>

27. The code sets out the standards of independence and objectivity required to perform this work.

## Agreeing an engagement and risk management

28. Agreement of an engagement and risk management will be of primary priority for the different parties involved and provides a way of managing and reconciling their potential expectations. We consider the list of generally relevant parties to be the BICA, the compiler (where compilation is outsourced by the BICA), the submitter or contributor, the assurance practitioner and other users of the benchmark, which include regulators.

29. For further information regarding the agreement of an engagement between parties and risk management considerations applicable to firms please see appendix 1.

## Performance of work and evidence to be sought by the practitioner

*This section considers what will be required of the practitioner in order to obtain the required level of assurance and form an opinion on the submission to or the compilation of the benchmark or index. Guidance is provided for work to be performed by the practitioner on the submitters' or compilers' processes and the submitters' or compilers' data. Where then benchmark or index forming the subject matter of the engagement is regulated, practitioners should have due regard to the requirements of regulation when planning and performing their work.*

## Pre-engagement considerations and planning

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<sup>8</sup> <http://www.ifac.org/sites/default/files/downloads/a007-2010-iaasb-handbook-isqc-1.pdf> It should also be noted that practitioners who are currently complying with ISQC (UK and Ireland) 1 will already be complying with ISQC 1.

<sup>9</sup> <http://www.ifac.org/sites/default/files/publications/files/2012-IESBA-Handbook.pdf>

30. Where reports are referred to as being prepared in accordance with the framework for reporting set out in this Technical Release, practitioners should plan and perform their work so as to provide a reasonable basis for their conclusion. Professional judgement is needed to determine the required nature, timing and extent of the tests to be carried out and the reliance, if applicable, on the submitter's internal audit department.
31. The practitioners' work is planned so as to have a reasonable expectation of detecting, at the time the work is undertaken and with reference to a predetermined period agreed by the parties, significant deficiencies in respect of the control procedures described by the directors and tested in accordance with the terms of the engagement. Practitioners will also plan substantive procedures where required so as to have a reasonable expectation of assessing the accuracy and completeness of the data which has been produced for submission by the submitter or the information which has been compiled for publication or other dissemination to the users.
32. However, the work cannot be expected to detect all problems which may be considered significant from the point of view of specific users and the scope of the work may mean that all control procedures relevant to an individual user may not have been tested. Substantive testing is also subject to inherent limitation due to sampling techniques used by practitioners.
33. Practitioners would not be expected to assess the adequacy of the evaluation of controls performed by the directors, unless they were seeking to rely on the assessment. It should also be considered that the directors' assessment may not formally take place depending on practice at the entity. This would be considered to be a separate directors' assessment done for the directors' own purposes and not part of an engagement to report on the entity's control procedures.
34. Prior to accepting the engagement practitioners should also consider the potential requirements for publication of the report, and ensure that this is taken into account as part of their engagement terms. Given the high level of public interest in benchmarks and indices we consider this to be something which practitioners will have due regard for.
35. In order to perform the agreed engagement, the practitioner should determine whether the following pre-conditions are present:
- The underlying subject matter (ie. the benchmark or index) is appropriate.
  - The criteria to be applied in the preparation of the subject matter information are suitable and will be available to the intended users.
  - The practitioner should be able to obtain the evidence needed to support the practitioner's conclusion.
  - The practitioner conclusion should be contained in a written report.
  - A rational purpose including that meaningful assurance can be obtained.
36. Practitioners are not expected to assess the adequacy of the evaluation of controls performed by the directors as part of an engagement to report on the entity's control procedures, unless seeking to rely on the directors' assessment.
37. Where the entity is not considered by the practitioner to have sufficiently documented control procedures it will be possible for the practitioner to report, but consideration would have to be given to the form and content of the report. In such circumstances the practitioner should consider appropriate use of agreed upon procedures and relevant inclusions within a letter of representation.

## Scope at the Submitter

### Processes and controls

38. The performance of assurance work on processes and controls surrounding benchmarks and indices is most likely to provide **'reasonable' assurance** in all material respects on:
- The fairness of the description and the design and operating effectiveness of control procedures in relation to the submission of the benchmark or index for a specified reporting period at the submitter.
39. Depending upon the specific nature of the benchmark rules the agreed assurance engagement is not likely to cover:
- The controls over the systems and the individual transactions that originate the data that will be used for the calculation, the recording process and risk management procedures which provide the input for submission data. Should an entity wish to have this extraction assured, it could be done so as part of a separate engagement or scoped into the assurance over submissions engagement and relevant other guidance followed.
  - The appropriateness or reasonableness of the basis of calculation provided by the compiler and used by the various submitters to determine their contribution to the benchmark or index. This will need to be determined at an industry level and it would depend upon the nature of the benchmark or index.
  - The validity of the final benchmark or index submitted by each of the submitters to the compiler.
  - The appropriateness or reasonableness of the calculation used by compiler to determine the final benchmark or index to be published. This calculation will need to be determined at an industry level and it would depend upon the nature of the benchmark or index.
  - The validity of the final benchmark or index published by the compiler.

### Data

40. Where appropriate, guidance and rules governing submission to the benchmark or index should have been laid down by the benchmark administrator, sponsor or compiler.
41. Assurance can be provided on the submitted data as a standalone assignment or combined with assurance on the process and controls over submissions. A standalone assignment would cover the calculation and estimation of submitted data in accordance with the rules set by the BICA and with reference to underlying source data, for example from transactions. It would not be expected to require testing of the controls of validity of such source data or to provide assurance on underlying transactions which would involve a separate assignment. It may include understanding the controls and processes without requiring detailed testing of whether these controls have operated effectively throughout the period if a more substantive approach is taken to the assurance engagement. A combined engagement would cover both the effective operation of the controls and processes and the calculation of the submitted data.
42. The scope of work and type of assurance report capable of being issued will be a matter of professional judgement for practitioners. Where a report provides reasonable assurance on the processes and controls, and limited assurance on the submitted data, practitioners make this clear in the report.

## Scope at the Compiler

### Processes and controls

43. The performance of assurance work on processes and controls surrounding benchmarks and indices is most likely to provide **'reasonable' assurance** in all material respects on:

- The design and operating effectiveness of the relevant internal controls and processes around the benchmark or index calculation, and on the benchmark or index data produced by the compiler.

44. Depending upon the specific nature of the benchmark rules the agreed assurance engagement is not likely to cover:

- The controls over the systems and the individual transactions that originate the data that will be used for the calculation, the recording process and risk management procedures which provide the input for submission data. Should an entity wish to have this extraction assured, it could be done as part of a separate engagement or scoped into the assurance over submissions engagements and relevant other guidance followed.
- The appropriateness or reasonableness of the basis of calculation provided by the compiler and used by the various submitters to determine their contribution to the benchmark or index. This will need to be determined at an industry level and it would depend upon the nature of the benchmark or index.
- The validity of the final benchmark or index submitted by each of the submitters to the compiler.
- The appropriateness or reasonableness of the calculation used by compiler to determine the final benchmark or index to be published. This calculation will need to be determined at an industry level and it would depend upon the nature of the benchmark or index.
- The validity of the final benchmark or index published by the compiler.

## Data

45. Where appropriate, guidance and rules governing compilation of the benchmark or index should have been laid down by the benchmark administrator, sponsor or compiler. The nature of the benchmark or index and the guidance and rules set out by the BICA is may mean that practitioners will only be able to provide limited assurance over compiled data.

46. Assurance can be provided on the compiled data as a standalone assignment or combined with assurance on the process and controls over compilation. A standalone assignment would cover the calculation and estimation of the benchmark or index in accordance with the rules set by the BICA It may include understanding the controls and processes without requiring detailed testing of whether these controls have operated effective throughout the period if a more substantive approach is taken to the assurance engagement. A combined engagement would cover both the effective operation of the controls and processes and the calculation of the compiled data.

47. The scope of work and type of assurance report capable of being issued will be dependent upon the structure and nature of the benchmark or index, including the method of compilation and calculation.

## Establishing what may be of significant to the user (report addressee) for reporting purposes

48. Misstatements, including omissions, are considered to be significant to the user if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter. The practitioner's consideration of what is significant in this regard is a matter of professional judgement, and is affected by the practitioner's perception of the common information needs of intended users as a group.
49. Significance is considered in the context of qualitative factors and, when applicable (as in the case of the compiler), quantitative factors. The relative importance of qualitative factors and quantitative factors in a particular engagement is a matter of professional judgement.
50. When planning and performing the engagement, the practitioner considers reporting requirements with respect to the fair presentation of the description, the suitability of the design of controls, the operating effectiveness of controls and the nature of work undertaken on input data or compiled data.

### Processes and controls:

51. Matters of significance with respect to the fair presentation of the design of controls include primarily the consideration of **qualitative factors**. Qualitative factors may include such issues as:
  - Whether the description includes the significant aspects of processing significant transactions.
  - Whether the description omits or distorts relevant information.
  - The ability of controls, as designed, to provide reasonable assurance that control objectives would be achieved.
  - The nature of a misstatement (for example, the nature of observed deviations from a control when the subject matter information is a statement that the control is effective).
  - In case of periodic reporting on an underlying subject matter, the effect of an adjustment that affects past or current subject matter information or is likely to affect future subject matter information.
  - Whether the misstatement is the result of an intentional act or is unintentional.
52. Matters of significance with respect to the practitioner's opinion on the operating effectiveness of controls includes the consideration of both quantitative and qualitative factors, for example, the tolerable rate and observed rate of deviation (a quantitative matter), and the nature and cause of any observed deviation (a qualitative matter).

### Data

53. What is considered significant with respect to the data submitted to the compiler is a matter of professional judgement depending on the nature of the data and the guidance and rules set out by the BICA, including for example the degree of judgement involved in preparing the submitted data.
54. In relation to the assessment over the compiled data (actual benchmark or index) it is possible that no misstatements should be tolerated where the calculation is a matter of fact rather than a range of possible outcomes.

### Practitioners' procedures for assurance of processes and controls

#### Fairness of the description

55. It is expected that the directors or responsible executive will have documented the processes and controls surrounding and supporting the submission process and reviewed them regularly. Where possible, practitioners will use this documentation as a basis for their

initial assessment and planning. Where controls and processes are not documented in such a way it is a matter of professional judgement whether adequate controls and processes exist so as to enable practitioners to perform work and draw a conclusion. Practitioner should consider this when accepting an engagement; in particular with regard to independence when constructing the form of the engagement and considering which controls are to be tested. Practitioners consider whether the control objectives are appropriate in the context of the benchmark or index being reported on.

56. Practitioners should read the description of control procedures to gain an understanding of the representations made by the directors in the submission. After reading the description, the practitioners perform procedures to determine whether the description presents fairly, in all material respects, the submitter's control procedures that relate to the control objectives referred to by the directors which were in place as at the end of the relevant period.
57. To determine whether the description is fairly presented, the practitioners gain an understanding of the data being provided by the submitter. Procedures to gain this understanding may include:
- discussing aspects of the control framework and relevant control procedures with management and other personnel of the submitter or compiler;
  - determining who the users are and how the data being provided by the submitter or compiler is likely to affect the users, for example, the predominant type of user
  - reviewing standard terms of contracts with the user to gain an understanding of the submitter's or compiler's contractual obligations;
  - observing the procedures performed by the submitter's or compiler's personnel;
  - reviewing the submitter's or compiler's policy and procedure manuals and other systems documentation, for example, flowcharts and narratives; and
  - performing walk-throughs of selected transactions and control procedures.
58. Practitioners compare their understanding of the services provided to the users by the submitter or compiler with the directors' representations made in their report or submission to determine the fairness of the description. Fairly described control procedures do not omit or distort significant information that may affect the user's assessments of control risk.
59. Fairly described control procedures should include a complete set of associated control objectives that are developed based on the criteria. Further consideration of criteria to be included in the description is set out in appendix 9. If there are omissions or misstatements with regard to the control objectives, the practitioners should request the directors to amend the description. If it is not amended the practitioners consider the need to state that fact in their report.

### **Design of control procedures**

60. As a part of their work, practitioners determine whether the control procedures are suitably designed. A control procedure is suitably designed if individually, or in combination with other control procedures, it is likely to prevent or detect errors that could result in the non-achievement of specified control objectives when the described control procedures are complied with satisfactorily.



61. The practitioners' assessment of the suitability of control procedure design may include:

- considering the linkage between the control procedures and the associated control objectives;
- considering the ability of the control procedures to prevent or detect errors related to the control objectives;
- performing walk-throughs of selected transactions and control procedures; and
- performing further procedures, such as enquiry of appropriate entity personnel, inspection of documents and reports and observation of the application of specific control procedures, to determine whether they are suitably designed to achieve the specified control objectives and if they are operated as prescribed, by appropriately qualified or experienced persons.
- considering the precision of the control, its frequency and timeliness.

62. Design suitability should also consider appropriateness of people, systems and processes in place in operation of the control procedure.

63. Where certain control procedures of the submitter are reliant on generic control procedures executed by the user in order to achieve control objectives (eg, controls over access to systems and segregation of duties), practitioners consider whether such complementary control procedures are described in the directors' report. If they are not and the directors fail or refuse to amend the description, the practitioners should consider adding an explanatory paragraph in their report to describe the required complementary control procedures and consider the implication for the practitioners' conclusion on the fairness of the description (see below in paragraphs 52 -54).

### **Operating effectiveness**

64. Practitioners perform tests of the relevant control procedures to obtain evidence over the operating effectiveness of the control procedures during a specified reporting period. Operating effectiveness is concerned with how a control procedure is applied, the consistency with which it is applied, and by whom it is applied. Practitioners determine the nature, timing and extent of the tests to be performed to form their conclusion on the operating effectiveness of the control procedures. Practitioners may wish to provide a further explanation of the tests that they have performed in an appendix to their report.

65. Where practitioners are unable to test a described control procedure because, for example, it has not operated during the year, they state the fact that no tests have been carried out and the reason in their description of tests. This will be reported as a limitation of scope by practitioners.

### **Nature, timing and extent of tests**

66. Tests of control procedures over operating effectiveness might include a combination of enquiry of the appropriate personnel, observation of the application of the control procedure, inspection of relevant documentation and re-performance of the control procedure. Enquiry alone does not generally provide sufficient evidence to support a conclusion about the operating effectiveness of a specific control procedure.

67. The period of time over which practitioners perform tests of control procedures varies with the nature of the control procedures being tested and with the frequency of specific control procedures. Tests of operating effectiveness provide evidence that enables the practitioners to report on the entire period covered by the report. Certain control procedures may not have evidence of their operation that can be tested at a later date and accordingly,

practitioners test the operating effectiveness of such control procedures at various times throughout the reporting period.

68. Where the submitter implemented changes to its control procedures to improve them or to address deficiencies during the period covered, the practitioners evaluate the impact which the superseded control procedures had on the control objectives over the period covered. Where a change of control procedures occurs during the period, the practitioners agree with the directors whether it is possible for the control procedures to be tested before and after the change. The description of their tests clearly states which control procedures have been tested.
69. The number of control operations selected as a sample for testing depends on the frequency of performance (for example, quarterly, monthly, daily or multiple times a day), the nature (for example, manual or automated) of control procedures, and the practitioners' assessment of the system (including the risk of failure of the control procedure that is being tested). The sample size selected needs to be specific to reduce the sampling risk. An example table for setting sample sizes is given in Appendix 4.

### **Describing tests of operating effectiveness and exception reporting**

70. Practitioners describe the control procedures that were tested, the control objectives they were intended to achieve, the tests carried out and the results of the tests in the assurance report. This information is typically incorporated within the submitter's description of control procedures or contained within an attachment to the assurance report. The practitioners describe tests of operating effectiveness that provide sufficient information to support their conclusion as to whether the submitter has achieved the relevant control objectives during the period.
71. In describing the results of the tests, practitioners include details and other information where relevant to the user. Test results are also described whether or not the practitioners have concluded that the results constitute an exception (see paragraphs 55 - 60).
72. Practitioners describe the nature, timing and extent of tests applied. In describing the nature of tests, the practitioners define the types of tests performed. In describing the extent of tests, the practitioners indicate whether the items tested represent a sample or all the items in the population. If sampling was used, it may be helpful to provide information on the sample size.

### **Reporting on description misstatements, design deficiencies or when control procedures are not operating effectively**

73. Practitioners discuss with the directors when they become aware that the control objectives are incomplete or inappropriate in light of the criteria in this guidance in order that the directors may amend the description to include the recommended control objective(s). If the directors refuse or fail to do so the practitioners add an explanation in the criteria and scope paragraph of the assurance report identifying the omitted or inappropriate control objective(s) to draw the attention of the user. In addition, the wording of the conclusion paragraph may also be modified.
74. Although practitioners may qualify their conclusion on the fairness of the description of control procedures, this does not necessarily affect the suitability of the design or operating effectiveness of the control procedures because the practitioners' conclusion relates only to the control objectives that are included in the submitter's description. Practitioners note that it is the responsibility of the directors and not the practitioners to ensure the completeness and the reasonableness of control procedures over the activities of the submitter.

75. Where control procedures associated with stated control objectives are incomplete or inappropriate, practitioners also discuss this with the directors so that the directors may amend the description to include the associated control procedures. If the directors refuse or fail to amend the description, the practitioners add an explanatory paragraph preceding the conclusion to the report identifying the omitted or inappropriate control procedures to draw the attention of the user. In addition, the wording of the conclusion paragraph may be modified.
76. Where practitioners conclude that a set of control procedures are not suitably designed in relation to a specified control objective, they consider the design deficiencies in their overall assessment of the control procedures. If the practitioners determine that control procedures are not suitably designed to achieve a specified control objective, they add an explanatory paragraph preceding the conclusion to the report identifying the design deficiencies and modify the conclusion.
77. Where the practitioners' tests identify exceptions to the operating effectiveness of the control procedures, the practitioners consider whether this exception means that a control objective has not been achieved. In some cases deficiencies may be so pervasive that the practitioners modify their conclusion on the achievement of one or more control objective or issue an adverse opinion.
78. Where significant changes are introduced during the period covered in the report, the directors report this fact. If practitioners become aware that the description on changes is missing, they request the directors to amend the description. However, the omission of information related to changes in the submitter's or compiler's control procedure does not warrant a qualification of the conclusion on the fairness of the description, provided that the directors' description of control procedures is fair as at the date of the description.

#### **Elements of the submitter or compiler report that are not covered by the assurance report**

79. A submitter or compiler may wish to present other information that is not a part of the description of internal controls in its report: for example, background information on the benchmark or index and the services they provide in relation to it. Where information of this nature is presented, it should be presented in a separate section of the report and made clear that it does not constitute a part of the submitter or compiler's description of control objectives and control procedures.
80. Where the submitter or compiler has included information other than that which constitutes a part of the description of control procedures in its report, this is outside the scope of the assurance report. The practitioners read such information for consistency with their understanding of the entity. If inconsistencies are noted, the practitioner discusses these matters with the Directors and if necessary discusses the implications in the report.

#### **Using the work of internal auditors**

81. A submitter or compiler may have an internal audit department that performs tests of control procedures as part of its audit plan. Practitioner may determine that 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 they might otherwise have performed in forming their conclusion. When using the work of internal auditors, however, the practitioners consider whether the internal auditors are sufficiently involved in aggregate to be able to support their conclusion. Practitioners also make reference to the work of internal auditors in their report and attribute the performance of the tests and the results of tests to them where appropriate.
82. This is considered further in the use of internal audit section below.

### **Considerations for uncorrected errors, fraud or illegal acts**

83. In the course of performing procedures at a submitter or compiler, practitioners may become aware of uncorrected errors, fraud or illegal acts attributable to the submitter's or compiler's systems, management or employees that may affect users.
84. Unless clearly inconsequential, practitioners determine from the directors of the submitter or compiler whether this information has been communicated to the compiler. If the directors of the submitter or compiler have not communicated this information and are unwilling to do so, the practitioners inform the submitter's or compiler's audit committee or other group of directors with equivalent authority. If the audit committee does not respond appropriately, the practitioners consider whether to resign from the engagement. The practitioners are generally not required to confirm with the users that the submitter or compiler has communicated such information.

### **Representation letter**

85. In all engagements, practitioners should obtain written representations signed by the directors of the submitter or compiler who the practitioners believe are responsible for and knowledgeable, directly or through others in the submitter or compiler, about the matters covered in the representations. The refusal by the directors of the submitter or compiler to provide the written representations considered necessary by the practitioners constitutes a limitation on the scope of the engagement and may be considered in forming the practitioners' conclusion. The representation letter is normally dated on the day the directors' report is dated.

### **Quality of evidence**

86. The same principles apply in evidence gathering for a reasonable assurance engagement as for a financial statement audit. The nature of testing would include an appropriate combination of inquiry, observation, inspection and re-performance.
87. 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.
  - Evidence provided by original documents is more reliable than evidence provided by photocopies or scanned documents.
88. 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.

**Nature, timing and extent of control tests****Submitter:**

89. Evaluation of design includes consideration of whether the submitter's controls are appropriately designed to achieve, as a minimum, the control objectives set out in Appendix 4.
90. Tests of control procedures over operating effectiveness might include a combination of enquiry of the appropriate personnel, observation of the application of the control procedure, inspection of relevant documentation and re-performance/walkthrough of the control procedure. Enquiry alone does not provide sufficient evidence to support a conclusion about the operating effectiveness of a specific control procedure.
91. Practitioners will need to obtain evidence on:
- How the control is applied
  - The consistency with which the control was applied
  - By whom the control was applied.
92. Practitioners need to determine whether the controls to be tested depend upon other controls (ie. indirect controls) and whether it is necessary to obtain evidence supporting the effectiveness of those controls. In addition it determines whether the means of selecting items for testing are effective in meeting the objectives of the procedure.
93. Where possible, depending on the systems involved and the sophistication of the systems used, the use of 'computer assisted audit techniques' (CAATs) testing could be developed for re-performance. This may enable recalculations of the benchmark or index over a selected period (eg rates versus trades on the day). Such techniques can be used to select sample transactions from key electronic files, to sort transactions with specific characteristics or to test entire populations rather than a sample
94. The period of time over which practitioners perform tests of control procedures varies with the nature of the control procedures being tested and with the frequency of specific control procedures. Tests of operating effectiveness provide evidence that enables the practitioners to report on the entire period covered by the report. Certain control procedures may not have evidence of their operation that can be tested at a later date and accordingly, practitioners test the operating effectiveness of such control procedures at various times throughout the reporting period.
95. Where changes to the control procedures have been implemented to improve them or to address deficiencies during the period covered, the practitioners evaluate the impact which the superseded control procedures had on the control objectives over the period covered. Where a change of control procedures occurs during the period, the practitioners agree with the directors whether it is possible for the control procedures to be tested before and after the change. The description of their tests clearly states which control procedures have been tested.
96. In the case of a reasonable assurance engagement, the sample sizes selected to conduct tests and collate evidence needed will not be different from those determined using the principles applicable for a financial statement audit, because the risk of material misstatement in the management assertion needs to be reduced to a similar acceptably low level.
97. The number of control operations selected as a sample for testing depends on the frequency of performance (for example, quarterly, monthly, daily or multiple times a day), the nature (for example, manual or automated) of control procedures, and the practitioners'

assessment of the system (including the risk of failure of the control procedure that is being tested). For example, a control operating monthly may be tested between 2 and 5 times.

98. As the opinion will cover the operating effectiveness of controls throughout each period, sufficient appropriate evidence about the operation of controls during the current period is required. Knowledge of deviations from prior engagements may, however, lead practitioners to increase the extent of testing during the current period.

#### **Practitioners' substantive procedures for assurance of input data ('submissions') and compiled data ('compiled benchmark or index')**

99. Due to the nature of this work, practitioners must perform a detailed and considered risk assessment on the type of report they are capable of issuing on assurance provided over benchmark or index data. An example report on data is included within appendix 5. All assurance opinions are subject to inherent limitations due to the use of sample testing. Input data submitted to a benchmark or index may be unique in that the practitioner cannot draw a conclusion about all submissions, based on the submissions tested. In these circumstances, it is likely that a reasonable assurance opinion being issued will not be possible unless testing covers an entire population. This should be considered carefully by the practitioner to ensure that any expectations gap, between the work actually undertaken by the practitioner and what the public and other financial information users perceive the assurance provides, is narrowed. Potential expectations gaps can be minimised through well-defined terms of engagement and clear reporting of practitioners' responsibilities against those of the submitter, compiler or BICA, and details of work performed.

#### **Substantive procedures for input data and compiled data**

100. Substantive procedures may be required depending on the terms of the engagement between the practitioner and the submitter or compiler and the regulator (if a tripartite agreement). Substantive procedures are required to provide assurance over data. Such procedures can be performed in addition to or instead of control procedures performed over processes.
101. The extent of substantive procedures will vary depending on the frequency with which assurance is being provided and the period to be covered. Depending on the structure of the engagement this could be on a periodic basis, such as annual or more frequently, or at a specified point in time. This is a matter to be decided between the parties to be mutually agreeable in-line with their needs and expectations.
102. Practitioners may be able to leverage the work of the submitter's or compiler's internal audit function if they consider the data outside of the controls processes. Using the work of internal audit is considered in greater detail in the section below.
103. Substantive procedures are subject to inherent limitations due to the use of sampling, particularly where there are significant variations in the subject matter tested. This will impact the level of assurance which is considered to be achievable by practitioners. Further guidance on the potential levels of assurance is explained in paragraph 106 below.
104. Management override of controls is to be considered by practitioners as part of their substantive work. Management override of controls is considered further in the section below.

#### **Design of substantive procedures at the compiler**

105. The compilation of benchmarks or indices varies greatly from simple arithmetical derivation to complex calculations requiring expertise and specialist knowledge of the subject matter.

106. Practitioner must understand the way in which the benchmark or index is calculated using the submissions, but is not required to consider the appropriateness of the calculation or formula.
107. Practitioner will, on a sample basis check the inputs used in the compilation of the information to the data received from the submitters to assess the data being compiled against the criteria set by the benchmark sponsor or compiler. Practitioners determine the sample size and select sample items so as to reduce the sampling risk to an acceptably low level. If applicable based on professional judgement and taking into consideration the nature of the benchmark practitioners will perform substantive analytical procedures (trend analysis) to give consideration to information (published benchmark or index) which may be at higher risk of misstatement.
108. In engagements with a compiler, practitioners may recalculate the benchmark or index to ensure it is in accordance with the guidelines and rules as agreed by all parties including the benchmark sponsor and the regulators where applicable. There may be instances where a benchmark or index requires the compiler to exercise judgement as to which inputs are to be used or not used. This will require greater work and professional judgement on the part of practitioners, and be subject to greater inherent risk. Practitioners will consider the compiler's internal policies and procedures in this regard, and ensure that their judgement has been exercised in accordance with these policies and procedures.
109. Sample sizes to be used for substantive work over data will be a matter of judgement for practitioners.

#### **Design of substantive procedures at the submitter**

110. Design of substantive procedures will centre on the guidelines and rules set by the compiler (or by the benchmark administrator or sponsor if compilation is outsourced). However if practitioners believe the guidelines and rules are so broad so as to undermine the quality of the benchmark and create an insurmountable expectations gap they should report as such concerns to the party engaging it and the sponsor or administrator of the benchmark or index. Insufficiently clear and precise guidelines and rules around compilation may prohibit practitioners from being able to provide an opinion on data.
111. In all engagements with a submitter, practitioners will consider submissions made to the benchmark or index to ensure they are made in accordance with the guidelines and rules as laid down by the BICA and agreed by all parties including the regulator where applicable. There may be instances where a benchmark or index requires the submitter to exercise judgement when deriving or calculating a submission. This will require greater work and professional judgement on the part of practitioners, and be subject to greater inherent risk. Practitioners will consider the submitter's internal policies and procedures in this regard, and ensure that their judgement has been exercised in accordance with these policies and procedures.
112. Due to the way in which benchmark or index submissions are calculated there will be differences in the reliability of submissions on a day to day basis.
113. In order to assist practitioners in applying professional judgement to what is considered to be sufficient and appropriate evidence regarding a submission; it may be helpful to group submissions into broad categories. Practitioner can then devise a test to ensure that management correctly categorises their submissions. This could be achieved through detailed testing, the sample size to be determined in accordance with the practitioners' assessment of risk. It would be a matter of professional judgement for practitioners to decide what is appropriately categorised in line with the guidelines and rules set down by the benchmark or index administrator, sponsor or compiler.

114. The categories themselves have the potential for separate disclosure within the assurance report. The practitioner should consider separately commenting on each of the categories as each category requires a different level of assurance to be provided as the assurance is reliant on the level of evidence obtained.
115. It may be useful to consider the submissions in terms of the following broad categories:

*Level 1*

116. Submissions based on actual current trade data without management adjustment or any degree of estimation. In order to validate such submissions practitioners will be able to vouch the submission to underlying source data. For the submission to be considered level one, current trade data being utilised must be within an appropriate period of the submission date or time depending on the frequency of publication of the benchmark or index, with no adjustments made by the submitter. It is not expected that there will generally be a high proportion of level one submissions where benchmark rules are complex, for example like LIBOR.
117. Practitioners should perform testing of trade data surrounding the trade(s) from which the submission data was based ('cut-off') to ensure that it was valid and in accordance with the guidelines and rules laid down by the BICA. This testing provides evidence of the quality of data being submitted.
118. Practitioners should consider the possibility that, if all submissions during the period were correctly categorised as 'Level 1', there is potential for a reasonable assurance opinion to be provided.

*Level 2*

119. A level two type estimate is where it is based on trade data or information which is consistent with the benchmark or index guidelines and rules, but deviates on specific basis, for example, size of trade, date of the trade or counterparty or information from an independent third party such as broker. Practitioners will be required to exercise a greater level of professional judgement in such scenarios when considering the data or adjustments made to the data by management when calculating the submission. Practitioners could obtain evidence of recent trade data as observed in the marketplace, transactions in other related markets, third party offers received in the market or related markets.
120. As a result of this professional judgement being applied by, and the evidence available to, the submitter and the practitioner, the practitioner may not have the potential to provide a reasonable level of assurance over level two type submissions. In this case, the report should describe the process undertaken by the submitter and the judgements applied in forming the estimate. Practitioners will only be able to comment on the reasonableness of the judgement in light of the process performed by management.

*Level 3*

121. A level three submission is made to a benchmark or index when there is a lack of observable evidence entirely, for example when a market has dried up, but the benchmark or index continues to be published. The submission is therefore based entirely on management judgement and estimates in accordance with the guidelines and rules. Assurance may be limited to management's processes and not judgements and estimates.

**Quality of evidence**

122. As with controls based procedures, the same principles apply in evidence gathering for a reasonable assurance engagement as for a financial statement audit. The nature of testing would include a variety of testing to be performed by practitioners to corroborate submissions or compilations with appropriate evidence.



123. Considerations in determining a selection of items for testing include the reliability of the evidence the test is expected to produce. For example:
- Evidence is more reliable when it is obtained from independent sources outside the organisation (ie, externally verifiable trade data).
  - Evidence that is generated internally is more reliable when the related controls applied by the organisation which govern the processes surround the production of that data are effective.
  - Evidence obtained directly by the practitioner eg, direct sight of corroborative evidence or independent recalculation and verification.
  - 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.
  - Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.
124. 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.

#### **Transactions either side of the submission date or time**

125. Given the nature of the assurance work under consideration it is likely that practitioners will be required to give consideration to transactions either side of the submission date or time. Should practitioners find evidence through this testing which could cause them to doubt the reliability of the submission made, it should be dealt with in accordance with the governance processes surrounding the benchmark or index.
126. Practitioners should also design appropriate procedures to corroborate submissions after publication of the benchmark or index and analyse variances, for example, if information is available by comparing the input data of a submitter against input data of other submitters.
127. Practitioners will consider potential adjustments which are made to future calculations by management following the review process.
128. Practitioners will assess and document the impact of the identified subsequent events on the report. Further guidance is provided in the section on reporting overall findings below.

#### **Representations**

129. Practitioners will obtain representations from the Directors' as those responsible for the company or other entity submitting to or compiling the benchmark or index and from the individual submitters

#### **Directors' Representations**

130. Practitioners should obtain the following written representations from the Directors at the submitter and the compiler as at the date of the assurance report and retains a signed copy on the working papers:
- Their evaluation of the subject matter against the identified criteria.
  - Their acknowledgement of responsibility for the subject matter.
  - Confirmation that all the supporting documentation and information in respect of the subject matter has been made available.

- Disclosure of additional information:
- Appropriateness of assumptions used in judgements/estimates where no trading to support submissions as per the guidance and rules established by the administrator of the benchmark.
- Instances of non-compliance with laws and regulations or uncorrected errors that may affect the benchmark/indices.
- Knowledge of any acts by management or the traders involved that could adversely affect the process or the achievement of the control objectives.
- Design deficiencies in controls and instances when controls have not operated as described.
- Any subsequent events to the period covered up to the date of the practitioner's report that could have a significant effect.

### **Submitter representations**

131. As part of substantive procedures practitioners will obtain the following written representations from the individual submitter as at the date of the assurance report and retain a signed copy on the working papers:

- Management's evaluation of the subject matter against the identified criteria.
- Acknowledgement of responsibility of the subject matter.
- Confirmation that all the supporting documentation and information in respect of the subject matter has been made available.
- Confirmation that the submitter has not been subjected to pressure with regards to submissions made.
- Additional representations such as:
  - Appropriateness of assumptions used in judgements and estimates where this is no trading to support submissions as per the guidance established by the administrator of the benchmark.
  - Knowledge of any instances of non-compliance with laws and regulations or uncorrected errors that may affect the rate.
  - Knowledge of any acts by management or the traders involved that could adversely affect the process or the achievement of the control objectives.
  - Design deficiencies in controls and instances when controls have not operated as described.
  - Any subsequent events to the period covered up to the date of the service auditor's report that could have a significant effect.

132. Practitioners should consider whether those making the representations can be expected to be well informed on the particular matters as well as obtaining corroborative evidence with regards to the nature of the submitter's representations made.

133. Additional representations should be obtained as necessary in line with specific regulatory and or legal requirements.

## Use of Internal Audit

*The following section refers to requirements of the practitioner to rely upon the work of internal audit with regards to work on both processes and data.*

### Obtaining an understanding of the Internal Audit Function

134. If the submitter and/or compiler have an internal audit function, practitioners obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed in order to determine whether the internal audit function is likely to be relevant to the engagement.
135. The practitioner determines:
  - (a) Whether the work of the internal auditors is likely to be adequate for purposes of the engagement; and
  - (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the practitioner's procedures.

### Determining whether and to what extent to use the work of the Internal Auditors

136. In determining whether the work of the internal auditors is likely to be adequate for purposes of the engagement, the practitioner evaluates:
  - (a) The objectivity of the internal audit function;
  - (b) The technical competence of the internal auditors;
  - (c) Whether the work of the internal auditors is likely to be carried out with due professional care; and
  - (d) Whether there is likely to be effective communication between the internal auditors and the practitioner.
137. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the practitioner's procedures, the following should be considered:
  - (a) The nature and scope of specific work performed, or to be performed, by the internal auditors;
  - (b) The significance of that work to the practitioner's conclusions; and
  - (c) The degree of subjectivity involved in the evaluation of the evidence gathered in support of those conclusions.

### Using the work of Internal Audit Function

138. In order to use specific work of the internal auditors, practitioners evaluate and perform procedures (by re-performing some of the internal auditors work) on that work to determine its adequacy for the practitioner's purposes.
139. To determine the adequacy of specific work performed by the internal auditors for the purpose of practitioners, practitioners evaluate whether:
  - (a) The work was performed by internal auditors with adequate technical training and proficiency;
  - (b) The work was properly supervised, reviewed and documented;

- (c) Adequate evidence has been obtained to enable the internal auditors to draw reasonable conclusions;
- (d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
- (e) Exceptions relevant to the engagement or unusual matters disclosed by the internal auditors are properly resolved.

#### **Effect on the assurance report:**

- 140. If the work of the internal audit function has been used in performing tests of controls, that part of the practitioner's assurance report that describes the practitioner's tests of controls and the results thereof includes a description of the internal auditor's work and of the practitioner's procedures with respect to that work.
- 141. If the work of the internal audit function has not been used, practitioners make no reference to that work in that part of the assurance report that contains the practitioner's opinion.

#### **Outcome of the testing**

- 142. If exceptions are noted or significant control deficiencies are identified, practitioners will use professional judgement to assess the impact and the implications on the assurance report. For further detail refer to the section on the assurance report.
- 143. The published indices and benchmarks will generally not be subject to modification or republication to the market. However sharing exceptions or deficiencies with management and those charged with governance will help to prevent the issues occurring in future calculations.

#### **Management Override of Controls**

- 144. In any submitter or compiler, management and those charged with governance need to implement a system of internal control designed to provide reasonable assurance about the achievement of the submitter's or compiler's objectives with regard to the reliability of their processes for submitting or compiling benchmark or index information.
- 145. The term 'management override' refers to the ability of management and/or those charged with governance to manipulate records and prepare fraudulent data for submission or information for compilation and publication by overriding these controls, even where the controls might otherwise appear to be operating effectively.
- 146. The ability to override controls puts management in a unique position to perpetrate, or conceal the effects of, fraud.
- 147. Although the risk of management override of controls will vary on a submitter or compiler basis, the risk is nevertheless present in all submitters or compilers. The term 'management', includes those charged with governance in situations where those charged with governance take an active part in the management of the entity and have the ability either to override controls directly or to instruct management to do so.
- 148. In considering management override, practitioners therefore needs to be alert to the possibility that:
  - those involved in management are perpetrating fraud for their own purposes and are attempting to conceal what they are doing from those charged with governance; and

- those charged with governance (who may also be owners of the submitter or compiler) are perpetrating fraud in order to misrepresent their contribution to the final benchmark or index either as a submitter or compiler.
149. Practitioners should consider whether the submitter or compiler has any controls to prevent, or detect and correct, such override (for example, a functioning whistle-blower reporting route). By definition, it is virtually impossible for a submitter or compiler to have controls in this area that will be totally effective but submitters and compilers should nevertheless have controls that minimise the risk, such as controls over the authorisation of data to be submitted from the submitter to the compiler and the adjustments made to the data in reaching a submission which is compliant with the compiler's definition of the benchmark or index. At the compiler such controls may be hierarchical review and checks before publication of the benchmark or index.
150. Practitioners also need to consider whether there are any particular risk factors that would affect the risk of management override. These may include incentives or pressures for Individual submitters or those responsible for compilation to misrepresent the data or information in order to:
- for personal gain based on the final benchmark or index position
  - to meet expectations or targets;
  - to influence the final benchmark or index position for wider market reasons

#### **How should practitioners respond to the risk of management override of controls?**

151. Due to the nature of this risk this usually requires substantive tests of detail to be performed in addition to work on controls and processes.
152. Fraudulent reporting of benchmark or index data or information may involve intentional misstatement of estimates used to reach a final submission or compilation.
153. Practitioners need to be alert to the possibility that the view given by the data (submission) or information (published benchmark or index) may be affected by management bias. The practitioner should evaluate whether the judgements and decisions made by management in making the estimates, even if they are individually reasonable, indicate a possible bias that may represent a risk of fraud or error.
154. Practitioners are also required to perform a retrospective review of significant management judgements and assumptions reflected in the final data or information of prior periods and consider whether the outcome of estimates made previously by management provide an indication of the ability of management to make reliable estimates or highlight a tendency to bias in one direction or the other.

### **The Assurance report**

#### **The Assurance report**

155. The content and structure of the report provided by the practitioner will vary depending on the level of assurance that is required and whether the practitioner is required to report to the entity submitting benchmark or index data or the entity compiling such data.
156. It should be clearly stated that this piece of work and the related report is unrelated to the financial statement audit.

157. As discussed above, it is assumed that the most efficient and effective approach is to provide reasonable assurance on the processes at the submitter and the compiler.
158. Where assurance is required over data, this is inherently different in nature to work over processes and controls. As such, practitioners must perform a considered risk assessment with regards to the type of report they wish to issue on assurance provided over benchmark or index data. It is considered that this is most likely to be a hybrid of limited assurance and agreed upon procedures. An example report on data is included within appendix 5. All assurance opinions are subject to inherent limitations due to the use of sample testing. Input data submitted to a benchmark or index is unique in that practitioners cannot draw a conclusion about all submissions, based on the submissions tested, prohibiting a reasonable assurance opinion being issued unless testing covers an entire population. This should be considered carefully by practitioners to ensure that the expectations gap is managed as closely as possible.
159. Further options, such as performing a different scope of work, for example agreed upon procedures or a limited assurance report are discussed in Appendix 6.

### Form and content of the assurance reports

160. The practitioners' conclusion is expressed in a written report attached to the directors' report where provided. The title of the 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 readers to the basis of the practitioners' work, ie. ISAE 3000 and this guidance.
161. The report by the practitioner reflects the agreement set out in the engagement letter. The report makes clear for whom it is prepared and who is entitled to rely upon it and for what purpose as established in paragraphs 140 - 144 above.
162. In the case of an assurance report on the submission of benchmark or index data, practitioners conclude on the fairness of the description and the design and operating effectiveness of control procedures in relation to a specified reporting period.
163. Control procedures have inherent limitations and accordingly errors and irregularities may occur and not be detected. Also control procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Practitioners refer to such inherent limitations in their report.
164. Key elements of an assurance report are shown in the table below. Pro-forma reports on the internal controls and compilation of the data are available in Appendix 5 together with some example qualifications.

#### Elements of practitioner's assurance report

- (a) A title indicating that the report is an assurance report.
- (b) An addressee identifying the engaging parties to whom the assurance report is directed.
- (c) Identification of the applicable engagement letter.
- (d) Use of the report by the directors.
- (e) Restrictions on the use of the assurance report to the directors and the replication of the report in whole or in part.
- (f) Limitation of the liability of the practitioner to the directors.
- (g) An identification and description of the subject matter information.

- (h) The identification of the directors as the responsible party and the respective responsibilities of the directors and the practitioners.
- (i) Reference to ISAE 3000 and this technical release.
- (j) For the report on controls, the criteria against which control procedures were evaluated or for the report on the data compilation.
- (k) A summary of the work performed.
- (l) Inherent limitations associated with the evaluation/measurement of the subject matter against the criteria.
- (m) The practitioner's conclusion with the description of the practitioner's findings including sufficient details of errors and exceptions found.
- (n) The name and signature of the firm/practitioner and the location of the office performing the engagement.
- (o) The assurance report date.

165. The engagement letter confirms whether the assurance report may be recited or referred to in whole or in part in any other published document. This may also be stated in the report.

## Reporting overall findings

### Matters of significance which do not impact upon the assurance conclusion.

166. 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 or other parties to the engagement. 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.
167. Matters for communication to management and the compiler or regulator as required, do not necessarily require a qualification of the assurance conclusion. These matters may therefore be communicated in a separate management letter rather than in the assurance report.
168. Where the engagement in question is in connection with a regulated benchmark, practitioners must bear in mind their rights and duties to report issues to the relevant regulator, particularly if the assurance practitioner is also the entity's external auditor. Any existing channels of communication with the regulator regarding the client should be maintained and the guidelines for any assurance practitioner and regulator/supervisor relationship be followed.
169. The ability to report onwards from submitter to compiler, for example, via a form of management letter should be considered by practitioners when accepting an engagement.

### Subsequent events:

170. In order to gain assurance that there have been no events subsequent to the submission of benchmark or index data by a submitter to a compiler, or publication of submissions after the publication of the benchmark practitioners shall consider an analysis of variances and compare the judgement taken and facts used by the submitter against actual data.
171. There may be potential adjustments or considerations made to future calculations after the review process. Practitioners should assess and document the effect of the identified subsequent events on the report. Consideration should be given to what happens if after the practitioner signs the report, should the directors at the submitter or compiler become aware of a breakdown in controls.

## Working papers and records

172. Practitioners will plan and perform work in accordance with their professional judgement. This may give rise to various forms of working papers including;
  - Electronic working papers
  - Physical working papers
173. Practitioners should seek to maintain the same standards of confidentiality, safe custody and ownership in relation to working papers as with any other professional engagement. When considering the risk of management override of controls and the practitioner's response to this risk, including the nature and extent of testing to be performed, it is important to ensure that the engagement working papers record the significant judgements made and the rationale for the practitioners' response.



## **Glossary**

### **Assurance engagement**

An engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence 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 us the information that results from applying the criteria.

### **Agreed upon Procedures (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 report on factual findings.

### **BICA**

Benchmark or Index Compiler or Administrator. The term used in this guidance to define the body responsible for sponsoring or requiring submission to a benchmark or index and dissemination of the benchmark or index, either publicly or privately depending upon the way in which the benchmark or index is operated.

### **CFTC**

The United States Commodity Futures Trading Commission

### **Compiler**

Entity which either through calculation or other process involving management judgement produces a published (publicly or on a 'pay to play' basis) benchmark or index for use and reference by market participants.

### **FSF**

The Financial Services Faculty of the ICAEW. Technical releases issued by FSF are numbered FSF nn/YY where nn is a sequential number and YY is the year of issue eg, FSF 01/08.

### **IAASB**

The International Auditing and Assurance Standards Board

### **ICAEW**

Institute of Chartered Accountants in England and Wales

### **IESBA**

International Ethics Standards Board for Accountant

### **IOSCO**

International Organisation of Securities Commissions

### **LIBOR**

London Inter-Bank Offered Rate

### **Limited assurance**

A limited assurance engagement results in a negative form of expression of the practitioner's conclusion, as the risk is greater than for a reasonable 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.

### **Practitioner**

Professional accountants in public practice providing assurance.

### **Reasonable assurance**

A reasonable assurance engagement results in a positive form of expression of the practitioner's conclusion, requiring a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement.

### **Regulatory bodies**

State sponsored bodies which take responsibility for the proper administration and publication of benchmarks. For example, IOSCO, the CFTC in the USA and the Financial Conduct Authority or OFGEM in the UK.

### **Submitter**

An entity which, either voluntary or through regulatory or other compulsion, contributes data to a benchmark or index, either in raw form or following adjustment by management.

## Appendix 1 – Risk management considerations

### Acceptance

1. The primary users of this section, which outlines key considerations in developing the structure of an assurance engagement, and the delivery of assurance engagements, are those practitioners who carry out assurance engagements (practitioners) and those who instruct the practitioners to carry out the service.
2. It is important that there is a clear understanding and agreement concerning the scope and purpose of the engagement between the reporting practitioners and the submitter or compiler and, if applicable, the users that are party to the engagement.
3. Practitioners consider whether the engagement team collectively possesses the necessary professional competencies having regard to the nature of the assignment. As part of the engagement acceptance process practitioners also consider relevant ethical requirements.
4. In carrying out an assurance engagement, chartered accountants are subject to ethical guidance as laid down by ICAEW in its ethical code. The requirements in the ethical code include, among other things, adherence to the Fundamental Principles in all of their professional and business activities. When conducting an assurance engagement, there are additional requirements in Independence for Assurance Engagements within the code. This applies to all assurance engagements outside the scope of audit and is in compliance with the Code of Ethics established by the International Federation of Accountants (IFAC) and the International Ethics Standards Board for Accountants (IESBA).
5. The practitioners' adherence to the independence requirements involves an assessment of likely threats to independence and, where necessary, the application of safeguards. For example, the provision of assistance to a submitter in preparing its report may result in a self-review threat if the impact of the assistance on the matter being reported on is highly subjective and material. The subjectivity of the report proposed to be issued will also be relevant. If other than insignificant threats are identified, safeguards need to be considered. These might include:
  - the use of independent teams, where appropriate; or
  - an independent review of the key judgements on the engagement.
6. The assurance report may be received by a range of persons who are not party to the engagement. Practitioners do not intend to assume responsibility to persons who are not party to the engagement, but legal actions from such persons may nonetheless occur. Practitioners therefore need 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 practitioners do accept such an engagement, suitably rigorous internal risk management policies are applied to manage any increased level of risk. Relevant steps for managing professional liability are covered in below.

### Managing professional liability

7. Depending on the engagement circumstances practitioners enter into one or a combination of the following arrangements:
  - A tri-partite or multi-partite engagement contract with the submitter or compiler and the users (which may include a regulator), accepting that they owe a duty of care not only to the submitter or compiler organisations, but also to those users, including

provisions limiting liability if appropriate (recognising that such a contract may not be achievable where the users are numerous). This is considered more appropriate for 'closed' benchmarks, which are used within a specific industry to inform decision making and business and activity, but are not publicly available ie, pay to participate benchmarks.

- An engagement with the submitter or compiler with the facility for users (including regulators) to enjoy a duty of care from the practitioners of they accept the relevant terms of the engagement letter previously agreed with the submitter or compiler as if they had signed that letter when originally issued, including the same provisions limiting liability<sup>10</sup>.
  - An engagement with the submitter or compiler alone but before allowing the users access to the assurance report, require the customers
    - To acknowledge in writing that the practitioners owe the users no duty of care and
    - To agree in writing that no claims may be brought against the practitioner by the users
  - An engagement with the submitter or compiler alone disclaiming any liability or duty to others (including users) by notice in the assurance report. Practitioners also consider supporting this disclaimer with an indemnity from the submitter or compiler to apply where a third party claim is made (recognising that such an indemnity may not be attractive commercially, may not be effective if the submitter or compiler is not financially stable, and pay not operate to prevent a claim. See letter for engagement section below for further information.
8. It is also open to practitioners to consider with their legal advisers the use of the Contract (Rights of Third Parties) Act 1999 to manage the risk of liability to third parties. The arrangements above do not prevent users taking legal action against the submitter or compiler.
  9. Practitioners may become aware of other third parties that are not users of the data from the submitter or compiler, such as market participants who may also request the assurance report. The submitter or compiler or the third party may approach the practitioners for consent to make the assurance report available to such third parties, as the engagement contract agreed with the submitter or compiler contains disclosure and use restrictions. The assurance report is not prepared for third parties or with their interests or needs in mind, and the practitioners may decline this request.
  10. The practitioners will have set out the purpose of their report in the assurance report, and will have included a disclaimer of liability to third parties in line with the above in that report. If the request is not declined, the practitioners will advise the third party that the assurance report was not prepared for the third party or the third party's benefit, that consent to their report being made available to a third party will only be given if the third party agrees that the third party should not rely on the report and acknowledges in writing that the practitioners owe the third party no duty of care and agrees that no claims may be brought against the practitioners by the third party in relation to the report.
  11. Where the practitioner is also appointed the statutory auditor of the entity, the practitioner may wish to include a statement in their engagement letter and report that the assurance report is separate from their opinion on the statutory accounts of the entity, which is prepared for a different purpose.

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<sup>10</sup> This will require the consent of the submitter or the compiler (original addressees), ideally in the engagement letter.

## Letter of engagement

12. Prior to accepting the engagement, practitioners establish that the directors of the submitter or compiler acknowledge in writing their responsibility on behalf of the submitter or compiler for the design and operation of effective internal controls over its activities to achieve control objectives.
13. Practitioners agree on the terms of engagement with the parties to the engagement in accordance with the contractual relationship as discussed in paragraph 7 above. To avoid misunderstandings, the agreed terms are recorded in writing in an engagement letter. Example extracts from an engagement letter for an assurance report on internal controls of a submitter or compiler are given in appendix 2 for illustrative purposes. Practitioners apply their own judgement to develop suitable wording for their engagement letters to reflect the guidance in this Technical Release and their own particular circumstances. Where the engaging parties include users (for example, a regulator or BICA), the nature and the content of an engagement letter may differ from the example extracts.
14. The written terms of the practitioners' engagement include:
  - the agreed use of the report and the extent to which, the context in which, and the basis on which, the report may be made available by the directors to users;
  - the directors' and the practitioner's respective responsibilities for the different elements of the report;
  - the scope of the work to be performed by the practitioner;
  - reliance upon the work performed by internal auditors at the submitter or compiler
  - a reference to the likely need for management representations;
  - an explanation of the inherent limitations of the work, and for whom the work is being undertaken;
  - limitations to the liability of the practitioner, including an appropriate liability cap and clarification that the work is separate from any audit of the entity's financial statements (where applicable); and
  - provisions for an indemnity if considered appropriate.
15. Illustrative paragraphs can be found in Appendix 2.
16. In particular, practitioners may exclude liability in respect of any loss or damage caused by, or arising from fraudulent acts, misrepresentation, concealment of information or deliberate default on the part of the submitter or compiler, their directors, employees or agents.
17. If, before the completion of the engagement, practitioners receive a request from the submitter, to change an assurance engagement to a non-assurance or limited assurance engagement or to change, for instance, the scope of the engagement, the practitioners consider whether this has reasonable justification. Engagement parties' misunderstanding concerning the nature of the engagement or a change in circumstances that affects the users' requirements is likely to justify such a request from the submitter. Where accepting a request for a change, the practitioners do not disregard evidence that was already obtained prior to the change, and the details of the change should be documented and agreed in writing with the parties to the engagement letter.

## Use and distribution of the practitioners report

18. The practitioner is associated with a benchmark or index when reporting on information about the benchmark or index or consenting to the use of the practitioner's name in a professional connection with respect to a benchmark or index. If the practitioner learns that the submitter or compiler (or any other party) is inappropriately using the practitioners name in association with a benchmark or index, the practitioner requires the submitter or compiler (or the 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.

### **Electronic publication of the report**

19. If benchmark or index information is published, on the submitter or compiler's website or by other electronic means, which includes a report by the practitioner or is otherwise connected to the practitioner, the submitter or compiler must inform the practitioner of the electronic publication and get their consent before it occurs and ensure that it presents the benchmark or index information (and practitioners report) properly. The practitioner has the right to withhold consent to the publication of [the assurance report or] the benchmark or index information if they are to be published in an inappropriate manner.
20. The submitter or compiler must set up controls to prevent or detect quickly any changes to electronically published information. The practitioner is not responsible for reviewing these controls nor for keeping the information under review after it is first published. The submitter or compiler is responsible for the maintenance and integrity of electronically published information, and the practitioner will accept no responsibility for changes made to (assured) information after their report has been signed.

## **Appendix 2 – Example paragraphs which may be considered necessary within the letter of engagement**

These extracts are provided for illustrative purposes only. Practitioners apply their own judgement to develop suitable wording for their engagement letters to reflect the guidance in this Technical Release and their own particular circumstances.

### **Responsibilities of directors**

The board of directors ('the Directors') of [name of entity] in relation to which the practitioners' assurance report is to be provided ('the Organisation') are and shall be responsible for the design, implementation and operation of control procedures that provide adequate level of control over [the submission process] [the compilation process]. The Directors' responsibilities are and shall include:

- acceptance of responsibility for internal controls;
- evaluation of the effectiveness of the organisation's control procedures using suitable criteria;
- supporting their evaluation with sufficient evidence, including documentation; and
- providing a written report of the effectiveness of the [submitter or compiler] organisation's internal controls for the relevant financial period.

In drafting this report the Directors have regard to, as a minimum, the criteria specified within the Technical Release FSF 03/13 issued by ICAEW but they may add to these to the extent that this is considered appropriate in order to meet customers' expectations.

### **Responsibilities of practitioners**

It is our responsibility to form an independent conclusion, based on the work carried out in relation to the control procedures of the Organisation's [submission] [compilation] function carried out at the specified business units of the Organisation [located at [ ]] as described in the Directors' report and report this to the Directors.

### **Scope of the reporting accountants' work**

**This section would also describe any specific procedures as required in order to add clarity to the conclusion.**

We conduct our work in accordance with the procedures set out in FSF 03/13, issued by ICAEW. Our work will include enquiries of management, together with tests of certain specific control procedures which will be set out in an appendix to our report.

In reaching our conclusion, the criteria against which the control procedures are to be evaluated are the internal control objectives developed for organisations as set out within the FSF 03/13 issued by ICAEW.

Any work already performed in connection with this engagement before the date of this letter will also be governed by the terms and conditions of this letter.

We may seek written representations from the Directors in relation to matters on which independent corroboration is not available. We shall seek confirmation from the Directors that any significant matters of which we should be aware have been brought to our attention.

### **Inherent limitations**

The Directors acknowledge that control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and

not be detected. Such procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore, the opinion set out in our report will be based on historical information and the projection of any information or conclusions in our report to any future periods will be inappropriate.

### Use of our report

Our report will, subject to the permitted disclosures set out in this letter, be made solely for the use of the Directors of the Organisation, and solely for the purpose of reporting on the internal controls of the Organisation, in accordance with these terms of our engagement.

Our work will be undertaken so that we might report to the Directors those matters that we have agreed to state to them in our report and for no other purpose.

Our report will be issued on the basis that it must not be recited or referred to or disclosed, in whole or in part, in any other document or to any other party, without the express prior written permission of the practitioners.

Practitioners may wish to seek independent legal advice on language that addresses both the matters covered in the illustrative wording set out in this Liability section together with any related matters such as provisions indicating that liability does not extend to consequential losses. Accountants may also consider any applicable independence requirements.

To the fullest extent permitted by law, we do not and will not accept or assume responsibility to anyone other than the Directors as a body and the Organisation for our work, for our report or for the opinions we will have formed.

### Liability provisions

We will perform the engagement with reasonable skill and care and acknowledge that we will be liable to the Directors as a body and the Organisation for losses, damages, costs or expenses ('losses') suffered by the Directors as a body and the Organisation as a result of our breach of contract, negligence, fraud or other deliberate breach of duty. Our liability shall be subject to the following provisions:

- We will not be so liable if such losses are due to the provision of false, misleading or incomplete information or documentation or due to the acts or omissions of any person other than us, except where, on the basis of the enquiries normally undertaken by us within the scope set out in these terms of engagement, it would have been reasonable for us to discover such defects;
- We accept liability without limit for the consequences of our own fraud or other deliberate breach of duty and for any other liability which it is not permitted by law to limit or exclude.

Our opinion on the [subject matter] is separate from our opinion on the statutory accounts of the Organisation on which we reported on [date], which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Organisation was made solely to the Organisation's members, as a body, in accordance with [Chapter 3 of Part 16 of the Companies Act 2006]. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Organisation and the Organisation's members as a body, for our audit work, for our audit report, or for the opinions we have formed in respect of that audit.



## Appendix 3 - Control objectives

This appendix sets out detailed control objectives for the contributing organisations to the benchmark/indices (Submitters) and to the compilers of the data to be published (Compilers). These control objectives are for guidance only and are not intended to be exhaustive. It remains the responsibility of the [directors] to ensure that the described control objectives are sufficient to meet the expectations of the [customer/public...].

### Control objectives for Submitters:

#### a) Governance

Each submitter will develop specific and detailed submission guidelines that will cover:

1. Internal systems and controls to develop a precise assessment of the benchmark or index data to be submitted (eg keep relevant records relating to the submission process), including periodic management review of the processes and controls (eg review by management and findings of internal audit from testing).
2. Policy and procedures manual.
3. Record retention policies.
4. Establishment of personal responsibilities within each contributing organisations, including internal reporting lines and accountability (eg Supervisor of the calculation agents, Oversight Internal Committee, Compliance and Legal...).
5. Potential qualifications and relevant experience required of submitters/supervisors to perform the role (ie. 'approved persons'). Confirmation should be obtained from these individuals regarding compliance and confidentiality.
6. Policies for regular training of the staff involved in preparing and reviewing the data for submission, including:
  - a. Regulatory responsibilities.
  - b. Their potential role in the benchmark or index determination.
  - c. Unacceptable behaviours (eg contact between calculation agent (eg traders) and the submitters).
  - d. Inputs to take into consideration when determining submissions.
  - e. How to use expert judgement within the framework of submission guidelines.
7. Segregation of duties (eg calculation agents should be physically separated from submitters...)
8. Effective 'conflicts of interest' management procedures and communication controls, to avoid inappropriate external influence over those submitting benchmarks/indices.
9. 'Performance objectives' and 'bonuses' will not be linked to the performance of the benchmark or index. Annual confirmations from the individuals involved should be obtained to ensure that their annual objectives do not contain these type of objectives
10. Suspicious submission reporting procedures to the supervisor/oversight committee for review.
11. Disciplinary and/or whistle-blower procedures for attempts to manipulate or failing to report attempted manipulation.
12. Mechanism to review these policies/guidelines at least annually or more frequently depending on the benchmark or index.
13. Procedures for submitting queries to the benchmark administrator, and procedures to analyse their responses and implement them accordingly in the contributing bank.

**b) Input Data**

1. Input data is explicitly and transparently supported by transaction data and hence prepared using information sourced through review of relevant market data (eg recent transactions by the company, related market data or other third party points). This would correlate to a Level 1 submission as described in the guidance.
2. Input data underlying the submission is reviewed to ensure it is representative and consistent for potential adjustments such as:
  - Time (proximity of transactions to time of submission and the impact of market events between transactions and submission time).
  - Market events that may impact current levels.
  - Term structure.
  - Credit standards.
  - Non-representative transactions.

Such factors will be the distinction between a level 1, level 2 or level 3 submission based on the judgement of the practitioner.

3. Where estimates/judgements are involved, there are other relevant transactions that can be used to support the assessment of the benchmark or index (especially during periods of limited activity). In the absence of such transactions other relevant information should be considered. Such submissions would correlate to level 2 or level 3 submissions as described in the guidance.
4. Controls over the adjustments made to the benchmark or index in the absence of relevant trades, or the calculation of the submission in the absence of all data ('adjusted actual submissions') are documented and authorised by the relevant person.
5. Authorising and processing transactions:  
The submitter has processes to ensure -
  - Trade data used to support the benchmark or index submission is recorded completely, accurately and on a timely basis.
  - Trade data used to support the benchmark or index submission is authorised and evidenced by the supervisor before sending it to the compiler.
6. Any adjustments to the submissions after the supervisor's review are evidenced within the working papers.
7. New input data or changes to the existing inputs:
  - New input data or changes to existing input data should be documented (eg inherent reporting risk, reputational risk and regulatory risk) and approved by the Oversight Committee.
8. Communications between calculation agents and supervisors are recorded and maintained for an appropriate period.

**c) Data analysis**

1. Maintaining financial and other records:
  - Accurate and accessible internal records of all transactions that contribute to the benchmark/indices are kept to facilitate corroboration/monitoring of submissions (eg transaction records and risk reports reflecting activities of the submitters).
  - Detailed procedures for reviewing the data used in the submission are established and approval procedures are in place.

2. Monitoring compliance:

- Establish a process for identification of outliers through subsequent analysis of submitted data.
- If issues are found, exception reporting procedures are established including communication to the oversight committee who will assess rectification and impact on the process.

**d) Submission (ie reporting)**

1. Reporting to the compiler in respect of the final benchmark or index is complete, materially accurate (compliant with the definition) and provided within required timescales.
2. For those submissions that involve a higher degree of subjectivity documentation explaining the rationale is provided to the compiler.
3. Review and approval of each submission.
4. Reporting to other interested parties within the firm (eg internal audit, oversight committee...)
5. Records of these submissions are maintained and kept for a period of [XXX].

**e) Information technology**

1. Restricting access to systems and data.
2. Providing integrity and resilience to the information processing environment.
3. Maintaining and developing systems hardware and software.
4. Recovering from processing interruptions.

**Control objectives for Compilers:**

**a) Governance**

Each compiler will develop specific and detailed compiling guidelines that will cover:

1. Internal systems and controls to calculate a precise benchmark or index data to be submitted (eg keep relevant records relating to the submission process), including periodic management review of the processes and controls (eg review by Internal Audit).
2. Establishment of personal responsibilities within each compiling firm, including internal reporting lines and accountability (eg Supervisor of the calculation agents, Oversight Internal Committee, Internal Audit, Compliance and Legal...).
3. Potential qualifications and relevant experience required to the compilers/supervisors to perform the role. Confirmation should be obtained from these individuals regarding compliance and confidentiality.
4. Policies for regular training of the staff involved in preparing and reviewing the data for submission, including:
  - a. Regulatory responsibilities.
  - b. Their potential role in the benchmark or index calculation.
  - c. Methodology used for the calculation.
  - d. Unacceptable behaviours.
  - e. Inputs to take into consideration when performing the calculation.
5. Segregation of duties
6. Suspicious submission behaviours.

7. Disciplinary and/or whistle-blower procedures for attempts to manipulate or failing to report attempted manipulation.
8. Mechanism to review these policies/guidelines at least annually or more frequently depending on the benchmark or index.
9. 'Performance objectives' and 'bonuses' will not be linked to the performance of the benchmark or index. Annual confirmations from the individuals involved should be obtained to ensure that their annual objectives do not contain these type of objectives
10. Procedures for submitting queries to the contributing firms, and procedures to analyse their responses and implement them accordingly if necessary.
11. Requirements for internal and external audits in the process.

**b) Input Data**

1. Check that the number of submitters contributing to the benchmark or index is complete and accurate as per the guidelines/policy for each benchmark or index.
2. Ensure that all required data has been obtained from each submitter and retained centrally for an appropriate period as per the established guidelines/policy.
3. Review the submitter's data for unusual or unexpected submissions.
4. Input the data into the agreed system to perform the calculation.
5. Perform reconciliation of the original data received from the Submitters and the data entered in the system/model. This reconciliation should be documented and approved.

**c) Data analysis**

1. Re-calculation of the arithmetic mean applying the established thresholds for high and low.
2. Review of the calculated rate prior to publishing.

**d) Submission**

1. Approval of the final rate to be published.

**e) Information technology**

1. Restricting access to systems and data.
2. Providing integrity and resilience to the information processing environment.
3. Maintaining and developing systems hardware and software.
4. Recovering from processing interruptions.

## Appendix 4 - Extent of testing

For an assurance engagement providing reasonable assurance, the sample sizes will be similar to the sample sizes used for assurance provided on audits of financial statements.

The nature of testing will be a matter of professional judgement, but will include an appropriate combination of inquiry, observation, inspection and re-performance. Inquiry alone will be insufficient.

### Controls

Depending on the nature of the benchmark or index, but in particular where a submitter makes or a compiler receives daily submissions, there will be a heavy reliance on the systems that produce the data.

There is likely to be a combination of automated and manual controls (ie where estimates have to be calculated due to absence of trading data).

#### a) Automated controls

- General IT controls.
- Testing of the control activities within the systems involved in producing the data.

#### b) Manual controls

These will vary depending upon:

- Frequency of the control
- Individuals/locations performing the control
- Existence of central monitoring/review function.
- Expected deviation of the control (ie. in year one for the engagement, there may have been an absence of controls and significant loss of credibility in the benchmark or index, the higher number in the range will be tested).

Frequency of control	Assumed population of control occurrences	Number of items to test
Annual	1	1
Quarterly	4	2
Monthly	12	2 to 5
Weekly	52	5,10,15
Daily	250	20,30,40
Multiple times per day	Over 250	25,45,60

It is not expected that the controls testing will cover controls over the transaction origination, recording and risk management which provide the data for submission.

### Data

The extent of testing when considering data is a matter of professional judgement for the practitioner based on their assessment of risk.

## Appendix 5 – Example assurance reports

### Reasonable assurance reporting on the controls

#### Independent practitioners' assurance report on internal controls to the directors of [name of entity] and the [BICA/regulator]

##### Use of report

This report is made solely for the use of the directors, as a body, of [name of entity] and the [regulator], and solely for the purpose of reporting on the internal controls of [name of entity], in accordance with the terms of our engagement letter dated [date] [and attached as appendix [ ]].

Our work has been undertaken so that we might report to the directors those matters that we have agreed to state to them in this report and for no other purpose. Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission except that we acknowledge that our report will be provided to the [BICA/regulator]. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body, [name of entity] and the [BICA/regulator] for our work, for this report or for the conclusions we have formed.

##### Subject matter

This report covers solely the internal controls of [name of entity] as described in [your report/the directors' control objectives in place] as at [date]. Internal controls are processes designed to provide reasonable assurance regarding the level of control over the [submission/compilation] of [benchmark or index] data and related transactions achieved by [name of entity].

##### Respective responsibilities

The directors' responsibilities and assertions are [ ]. Our responsibility is to form an independent conclusion, based on the work carried out in relation to the control procedures of [name of entity]'s [benchmark or index] [submissions/compilation] as described in [your report/the directors' control objectives in place] and report this to you as the directors of [name of entity].

Our opinion on the internal controls is separate from our opinion on the statutory accounts of the Organisation on which we reported on [date], which was made solely to [name of entity]'s members, as a body, in accordance with [Chapter 3 of Part 16 of the Companies Act 2006]. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the [name of entity] and [name of entity]'s members as a body, for our audit work, for our audit report, or for the opinions we have formed in respect of that audit.

##### Criteria and scope

We conducted our engagement in accordance with International Standard on Assurance Engagement (ISAE) 3000 and ICAEW Technical Release [FSF 03/13]. The criteria against which the control procedures were evaluated are the internal control objectives as set out within the Technical Release FSF 03/13 and identified by the directors as relevant control objectives relating to the level of control over the submission of [benchmark or index] data and related transactions. Our work was based upon obtaining an understanding of the control procedures as described on page [ ] to [ ] in the report by the directors, and evaluating the directors' assertions as described on page [ ] to [ ] in the same report to obtain reasonable assurance so as to form our conclusion. Our work also included tests of specific control procedures, to obtain evidence about their effectiveness in meeting the related control objectives. The nature, timing and extent of the tests we applied are detailed on pages [ ] to [ ].

##### Inherent limitations

Control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such control procedures cannot guarantee protection against (among other things) fraudulent collusion

especially on the part of those holding positions of authority or trust. Furthermore, our conclusion is based on historical information and the projection of any information or conclusions in the attached report to any future periods would be inappropriate.

ISAE 3000 requires that we obtain reasonable rather than absolute assurance that the [XX] are free from material misstatement. As you are aware, there are inherent limitations in the assurance process, including, for example, selective testing and the possibility that collusion or forgery may preclude the detection of material misstatements, fraud, and illegal acts. Accordingly, a material misstatement may remain undetected. Also, a reasonable assurance engagement is not designed to detect misstatements that are immaterial to [XX].

### Conclusion

In our opinion, in all material respects:

- the accompanying report by the directors describes fairly the control procedures that relate to the control objectives referred to above which were in place as at [date];
- the control procedures described on pages [ ] to [ ] were suitably designed such that there is reasonable, but not absolute, assurance that the specified control objectives would have been achieved if the described control procedures were complied with satisfactorily; and
- the control procedures that were tested, as set out in the attachment to this report, were operating with sufficient effectiveness for us to obtain reasonable, but not absolute, assurance that the related control objectives were achieved in the period [x] to [y].

Name of firm  
Chartered Accountants  
Location  
Date

### Examples of explanatory paragraphs and qualification wording

#### (a) Description misstatements

Appendix X specifies a minimum set of control objectives for inclusion in the directors' reports. Exceptionally, in the event that the directors decide not to include a particular control objective in their report then their report explains the fact and the reasons for the omission. Where directors fail or refuse to disclose the omission, or the practitioners consider the justification being unsatisfactory, the practitioners disclose the fact and qualify their opinion. For example:

*We draw attention to page [x] of the report by the directors which sets out the control objectives. One of the control objectives, [specify], in Technical Release FSF 03/13, is not included in the directors' report and no reason for the omission is explained.*

*Except for the matter referred to above concerning the fairness of the description of control procedures, in our opinion, ...*

The refusal or failure of the directors to amend incomplete or inappropriate descriptions of control procedures or control objectives, may lead to the description of internal controls being considered not fair. Where the practitioners consider that this merits qualification, this might be phrased as follows:

*The report by the directors states, on page [x], that [XX]. Our work indicates that whilst this is the procedure for [XX], ...*

*Except for the matter referred to above concerning the fairness of the description of control procedures, in our opinion, ...*

**(b) Design deficiencies**

Design deficiencies may, for example, result either from a key control being absent or from control procedures that do not prevent or detect errors as described. The following is an example of wording that may be appropriate where practitioners qualify their opinion on the control design due to the absence of a key control.

*As explained on page [x] of the report by the directors that six monthly reconciliations of [XX] are undertaken. The reconciliation procedures did not however include a control for follow up of reconciling items and for independent review and approval of the reconciliations.*

*Except for the matter referred to above concerning the control design, in our opinion, ...*

**(c) Exceptions to operating effectiveness**

Tests of operating effectiveness carried out by practitioners in relation to specific control procedures are detailed either (a) adjacent to the relevant control procedures in the report by the directors or (b) in an appendix to the assurance report. Where the results of the tests identify an exception to the control procedures, this is reported after the test, and the practitioners consider whether the exceptions affect the achievement of the control objective. Where the achievement of the control objective deserves qualification the practitioners insert an explanatory paragraph with appropriate reference and modify their opinion.

*On page [x] of the report by the directors it is stated that six monthly reconciliations of [XX] are undertaken and that there is a process for following up reconciling items. Our tests of operating effectiveness indicated that there were a significant number of reconciling items that were not being resolved on a timely basis in accordance with the organisation's policy.*

*Except for the matter referred to above concerning the operating effectiveness of the control procedures, in our opinion, ...*

Where the results of the practitioners' tests of operational effectiveness and the deficiency have been integrated and fully explained into the report by the directors the practitioners may alternatively consider cross-referring their qualification to where these details may be found. For example:

*Except for the matter explained on page [z] concerning the follow up of reconciling items on [XX] reconciliations, the control procedures tested, as set out [on pages [x] to [y] of the report by the directors/ in the attachment to this report], in our opinion, ...*

In addition, any exceptions identified when performing the operating effectiveness control procedures may call into question whether the specific control has been appropriately designed and implemented.



## Example reasonable assurance report on the compiled data by the compiler

### Independent practitioner's reasonable assurance report on the compilation of [XX] benchmark data to the directors of [name of entity]

#### Use of report

This report is made solely for the use of the directors, as a body, of [name of entity], and solely for the purpose of reporting on the compilation of [XX] benchmark data by [name of entity], in accordance with the terms of our engagement letter dated [date] [and attached as appendix [ ]].

Our work has been undertaken so that we might report to the directors those matters that we have agreed to state to them in this report and for no other purpose. Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission save that we acknowledge that our report will be provided to the [regulator] for the use of the [regulator] solely for the purposes set down by statute and the [regulator]'s rules. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body, [name of entity] and the [regulator] for our work, for this report or for the conclusions we have formed.

#### Respective responsibilities

As directors of the company, you are responsible for ensuring that the company compiles the [benchmark or index] data in accordance with [insert framework]. Our responsibility is to form an independent conclusion, based on the work carried out in relation to the compilation of the [benchmark or index] data based on the submissions received and report this to you as the directors of [name of entity].

Our opinion on the [benchmark or index] data is separate from our opinion on the statutory accounts of the Organisation on which we reported on [date], which was made solely to [name of entity]'s members, as a body, in accordance with [Chapter 3 of Part 16 of the Companies Act 2006]. To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the [name of entity] and [name of entity]'s members as a body, for our audit work, for our audit report, or for the opinions we have formed in respect of that audit.

#### Criteria and scope

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 and ICAEW Technical Release [FSF 03/13]. We performed a reasonable assurance engagement as defined in the framework.

For the purpose of the engagement we have been provided by the directors with a schedule showing the company's compilation of benchmark or index data, which is attached as Appendix [ ] to this letter (the 'schedule'). The directors of the company remain solely responsible for the schedule.

The objective of a reasonable assurance engagement is to perform such procedures [on a sample basis] as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence to express a positive conclusion on [the schedule].

#### Inherent limitations

[The [benchmark or index] data used to compile this report has been obtained from returns submitted to [name of entity]. [Name of entity] has not tested the [benchmark or index] data submitted and has relied on the accuracy of the data provided by management.

#### Conclusion

In our opinion, based on the submissions received [the schedule] has been prepared, in all material respects, in accordance with [the framework].

or

Except for [detail minor exceptions noted], in our opinion [the schedule] has been prepared, in all material aspects, in accordance with [the framework].

*or*

In our opinion [the schedule] has not been prepared in all material respects, in accordance with [the framework].

[insert details of issues leading to qualification of opinion]

Name of firm  
Chartered Accountants  
Location  
Date

## Example limited assurance report on the data submitted by the submitter

### **Independent Practitioner's Assurance Report on submitted data to [Submitter] and the [BICA/Regulator]**

In accordance with the terms of our engagement letter dated [x] and further to the requirements of the [regulator], we have carried out an engagement to obtain limited assurance about whether the submissions made by [submitter] to [benchmark or index] during the period XX/XX/XX to XX/XX/XX have been made in accordance with the guidelines and rules laid down by the [benchmark or index administrator/compiler].

This report is made solely to [submitter] [and [regulator]] in accordance with the terms of our engagement letter. Our work has been undertaken so that we might state to the [submitter] [and [regulator]] those matters we are required to state in a report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the [submitter] [and [regulator]], for our work, for this report, or for the conclusion we have formed.

### **Respective responsibilities of [submitter] and the Practitioner**

The submitter is responsible, under the requirements of the arrangements governing their participation in the [benchmark or index] dated [x], for ensuring that submissions are made in accordance with the guidelines and rules laid down by the [benchmark or index] [administrator/compiler/sponsor].

Our responsibilities for this engagement are established in the United Kingdom by our profession's ethical guidance and are to obtain limited assurance and report in accordance with our engagement letter and the requirements of [regulation]. We report to you whether anything has come to our attention in carrying out our work (which is further described below) which suggests that in all material respects, submissions made during the period XX/XX/XX to XX/XX/XX have not been made in accordance with the guidelines and rules laid down by the [benchmark or index] [administrator/compiler/sponsor].

### **Approach**

We conducted our engagement in accordance with the requirements of the [regulator] and the guidance presented in FSF 03/13. We performed a limited assurance engagement as defined in our engagement letter.

The objective of a limited assurance engagement is to perform such procedures as to obtain information and explanations in order to provide us with sufficient appropriate evidence to express a negative conclusion on submissions being made in accordance with the guidelines and rules being laid down by the [benchmark or index] [administrator/compiler/sponsor].

We will report by exception if we are of the opinion, based on our professional judgement and experience that the guidelines and rules laid down by the [benchmark or index] [administrator/compiler/sponsor] are insufficiently clear and precise. Our ability to form a conclusion on submissions made to the [benchmark or index] is dependent upon there being guidelines and rules which are not so broad as to undermine the quality of the [benchmark or index].

A limited assurance engagement is more limited in scope than a reasonable assurance engagement and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express a positive opinion.

Our engagement includes examination, on a test basis, of evidence relevant to the submissions made during the period defined above and their compliance with the aforementioned rules and guidelines.

[Summary of work undertaken, demonstrating application of the principles outlined in this guidance. See 'Performance of work and evidence to be sought by the practitioner).]

Examples:

- Testing on a sample basis that management correctly classifies submissions made in accordance with their level of quality and correlation to the [benchmark or index] guidelines and rules] and the level of judgement required to be exercised in making the submission (ie, Level 1, Level 2, Level 3)
- Back testing of submissions on a sample basis
- Obtaining representations from submitters]

**Conclusion**

In the course of our work, [except for the matters listed below] nothing has come to our attention which suggests that in all material respects the submissions made during the period XX/XX/XX to XX/XX/XX have not been made in accordance with the guidelines and rules laid down by the [benchmark or index] [administrator/compiler/sponsor].

[Matter 1:  
Matter 2:]

Name of firm  
Chartered Accountants  
Address  
Date

## Appendix 6 – Comparisons of forms of reporting

As noted in appendix 5 the template reports drafted for the submitter and compiler are assurance reports. There are alternative forms of report that could be provided which are summarised below.

Type of engagement	Description	Nature of Report	Pros	Cons
Agreed upon procedures	<p>The exact scope of work (eg, type of test, sample sizes etc) is agreed by the [BICA/regulator], entity and the accountant.</p> <p>or</p> <p>the practitioner follows the exact scope of work set out in the guidance produced by the regulator, or other relevant guidance, that have previously been agreed by the practitioner or representative body.</p> <p>The practitioner then undertakes these procedures and reports the results.</p>	<p>A detailed report setting out the work undertaken (or making reference to the scope of work set out in the engagement letter or making reference to the source of any pre-agreed procedures) and the results of the testing.</p> <p>This is a factual report and no conclusion is given.</p>	<ul style="list-style-type: none"> <li>• Clarity about the scope, nature and extent of the testing agreed at the outset.</li> <li>• Regulator can set out the overall template for the report in the light of its requirements.</li> <li>• Any exceptions that are identified are set out in the report.</li> <li>• The regulator and other potential users of the report are able to reach an informed judgement based on the information provided in the report.</li> <li>• Simple engagement from the practitioner's perspective and therefore, all other things being equal, cheaper than other options.</li> <li>• Professional guidance in place in the form of International Standard on Related Services (ISRS) 4400, Engagement to perform agreed-upon</li> </ul>	<ul style="list-style-type: none"> <li>• Time needs to be set aside to agree the scope, nature and extent of work upfront.</li> <li>• The practitioner will only complete the required work and will not undertake additional procedures even if they identify errors (unless this is required by the scope of work).</li> <li>• No conclusion is given. Therefore the user of the report is left to interpret the results and make a judgement.</li> <li>• The user of the report may not have the time/skills/ resources to interpret the report/reach a judgement.</li> </ul>

Type of engagement	Description	Nature of Report	Pros	Cons
			<p>procedures regarding financial information.</p>	
<p>Limited Assurance</p>	<p>The scope of work is agreed by the [BICA/regulator], entity and the practitioner <i>or</i> the practitioner follows the scope of work set out in the guidance produced by the regulator, or other relevant guidance, that have previously been agreed by the accountant or representative body.</p> <p>The practitioner then undertakes these procedures and provides a 'limited assurance' conclusion.</p>	<p>A 'limited assurance' conclusion in the form of a negative assurance statement (eg, 'having carried out the procedures stated (either as set out in the engagement letter or in accordance with an agreed framework), nothing has come to our attention to suggest that the data has not been correctly compiled from the submitted data.</p>	<ul style="list-style-type: none"> <li>Where the exact scope of work has been agreed, everyone is clear as to the scope, nature and extent of the testing that is undertaken as this is agreed at the outset. However, this does not preclude or mitigate the need for the practitioners from performing other procedures in order to gather sufficient evidence to reach their conclusion.</li> <li>The practitioner provides a conclusion in the form of a negative assurance statement. There is no need to 'interpret' the results, unless there is a</li> </ul>	<ul style="list-style-type: none"> <li>No accepted framework currently in place covering these types of engagements. 'Limited assurance' engagements can therefore take various forms (some guidance is available in ISAE 3000). These can range from being similar to agreed-upon procedures work, through to engagements that are very similar to reasonable assurance.</li> <li>As a result, such 'limited assurance' engagements can be difficult to agree in practice and agreed-upon procedures or a</li> </ul>

Type of engagement	Description	Nature of Report	Pros	Cons
			<ul style="list-style-type: none"> <li>qualified conclusion.</li> <li>Professional guidance in place in the form of International Standard on Assurance Engagements (ISAE) 3000, Assurance engagements other than audits or reviews of historical financial information.</li> <li>May be cheaper than a 'reasonable assurance' engagement.</li> </ul>	<ul style="list-style-type: none"> <li>'reasonable assurance' engagement may be more appropriate.</li> <li>Requires 'materiality' to be set or agreed by the user of the report, so that practitioners can determine the scope, nature and extent of the testing with the expectations of the user of the report in mind.</li> <li>The user of the report simply receives a conclusion, rather than a detailed report, unless additional reporting is specified (eg, details of all exceptions identified).</li> <li>Readers of the report may not know the exact scope, nature or extent of the work undertaken by the practitioner, unless the engagement letter is provided or additional reporting is specified.</li> <li>May be more expensive than an agreed-upon procedures engagement.</li> </ul>
Reasonable Assurance	The overall scope of work (or a minimum scope of work) is agreed by the	A conclusion in the form of a positive assurance conclusion eg, 'In our	<ul style="list-style-type: none"> <li>The user is provided with a positive conclusion (or otherwise).</li> </ul>	<ul style="list-style-type: none"> <li>As each practitioner is responsible for determining the exact</li> </ul>

Type of engagement	Description	Nature of Report	Pros	Cons
	<p>[BICA/regulator], entity and the practitioner (including materiality levels) or</p> <p>The accountant follows the overall scope of work (or a minimum scope of work) set out in the guidance produced by the regulator or other relevant guidance, that have previously been agreed by the practitioner or representative body, but the accountant determines the exact scope, nature and extent of the procedures required to support their opinion.</p> <p>The practitioner then undertakes these procedures and provides a positive conclusion.</p>	<p>opinion, [the schedule] has been prepared, in all material respects, in accordance with [the framework].’</p> <p>While a template wording can be suggested, it should be for the practitioner to determine the exact wording of their conclusion which reflects their judgement and is linked to the work actually carried out.</p>	<ul style="list-style-type: none"> <li>• The practitioner has determined the appropriate scope, nature and extent of testing necessary to reach their conclusion.</li> <li>• Professional guidance in place in the form of International Standard on Assurance Engagements (ISAE) 3000, Assurance engagements other than audits or reviews of historical financial information.</li> <li>• No need to ‘interpret’ the results, unless there is a qualified opinion.</li> </ul>	<p>scope, nature and extent of testing required to support their conclusion there is potential for inconsistency between the amounts of work undertaken by different practitioners.</p> <ul style="list-style-type: none"> <li>• Requires ‘materiality’ to be set or agreed by the user of the report, so that practitioners can determine the scope, nature and extent of the testing with the expectations of the user in mind.</li> <li>• The user simply receives a conclusion, rather than a detailed report, unless additional reporting is specified (eg, details of all exceptions identified).</li> <li>• Readers of the report may not know the exact scope, nature or extent of the work undertaken by the practitioner, unless the engagement letter is attached or additional reporting is specified.</li> <li>• To reach a positive conclusion typically requires additional</li> </ul>



Type of engagement	Description	Nature of Report	Pros	Cons
				procedures to be undertaken by the practitioner. This type of engagement can therefore be more expensive.

A 'reasonable assurance' engagement may be the most appropriate type of engagement when the user of the report wants to:

- obtain a conclusion from an practitioner; and/or
- allow the practitioners to apply their judgement in determining the scope, nature and extent of the work required to provide a conclusion.

A 'reasonable assurance' engagement is unlikely to be the most appropriate type of engagement when the user of the report wants to:

- ensure that the scope, nature and extent of testing is the same for all entities (although it is possible to specify minimum requirements);
- understand exactly what amount of testing has been undertaken by the practitioner (although it is possible to request additional disclosures in respect of this);
- be provided with details of all exceptions (although it is possible to request additional disclosures in respect of this);
- avoid being involved in setting a materiality level; and/or
- minimise the costs associated with obtaining the required assurance.



## Appendix 7 – Interest rate benchmark considerations

This appendix sets out detailed control objectives for the contributing organisations to interest rate benchmarks (Submitters) and to the compilers of the data to be published (Compilers). These control objectives are for guidance only and are not intended to be exhaustive. It remains the responsibility of the directors to ensure that the described control objectives are sufficient to meet the expectations of the customer and/or public.

### Control objectives for Submitters:

#### a) Governance

Each submitter will develop specific and detailed submission guidelines that will cover:

Internal systems and controls to develop a precise assessment of the data utilised to submit the interest rate (eg keep relevant records relating to the submission process), including periodic management review of the processes and controls.

Policy and procedures manual over the interest rate benchmark submission process

Record retention policies.

Establishment of personal responsibilities within each contributing organisations, including internal reporting lines and accountability (eg Supervisor of the calculation agents, Oversight Internal Committee, Internal Audit, Compliance and Legal...).

Potential qualifications and relevant experience required of submitters/supervisors to perform the role (ie. 'approved persons'). Confirmation should be obtained from these individuals regarding compliance and confidentiality.

Policies for regular training of the staff involved in preparing and reviewing the data for submission, including:

- a. Regulatory responsibilities associated with the submission
- b. Their potential role in interest rate benchmark determination.
- c. Unacceptable behaviours (eg contact between calculation agent (eg traders) and the submitters).
- d. Inputs to take into consideration when determining submissions.
- e. How to use expert judgement within the framework of submission guidelines.

Segregation of duties (eg calculation agents should be physically separated from submitters...)

Effective 'conflicts of interest' management procedures and communication controls, to avoid inappropriate external influence over those submitting interest rate benchmark data.

Suspicious submission reporting procedures to the supervisor/oversight committee for review.

Disciplinary and/or whistle-blower procedures for attempts to manipulate or failing to report attempted manipulation.

Mechanism to review the policies/guidelines regarding interest rate benchmark submissions at least annually or more frequently.

Procedures for submitting queries to the benchmark administrator, and procedures to analyse their responses and implement them accordingly in the contributing bank.

Requirements for internal and external audits of the interest rate benchmark submission process.

**b) Input Data**

Input data is explicitly and transparently supported by transaction data and hence prepared using information sourced through review of relevant market data (eg recent transactions by the company, related market data or other third party points).

Input data underlying the submission is reviewed to ensure it is representative and consistent for potential adjustments such as:

- Time (proximity of transactions to time of submission and the impact of market events between transactions and submission time).
- Market events that may impact current levels.
- Term structure.
- Credit standards.
- Non-representative transactions.

Where estimates/judgements are involved, there are other relevant transactions that can be used to support the assessment of interest rate benchmark (especially during periods of limited activity).

Controls over the adjustments made to the interest rate benchmark submission in the absence of relevant trades ('adjusted actual submissions') are documented and authorised by the relevant person.

Authorising and processing transactions:

- Trade data used to support the interest rate benchmark submission is recorded completely, accurately and on a timely basis.
- Trade data used to support the interest rate benchmark submission is authorised and evidenced by the supervisor before sending it to the compiler.

Any adjustments to the interest rate benchmark submission after the supervisor's review are evidenced within the working papers.

New input data or changes to the existing inputs:

- New input data or changes to existing input data should be documented (eg inherent reporting risk, reputational risk and regulatory risk) and approved by the Oversight Committee.

Communications between BICA and supervisors are recorded and maintained for an appropriate period.

**c) Data analysis**

Maintaining financial and other records:

- Accurate and accessible internal records of all transactions that contribute to the interest rate benchmark submissions are kept to facilitate corroboration/monitoring of submissions (eg transaction records and risk reports reflecting activities of the submitters).
- Detailed procedures for reviewing the data used in the interest rate benchmark submission are established and approval procedures are in place.

Monitoring compliance:

- Establish a process for identification of outliers through subsequent analysis of submitted data.

- If issues are found, exception reporting procedures are established including communication to the oversight committee who will assess rectification and impact on the process.

**d) Submission (ie reporting)**

Reporting to BICA in respect of the final interest rate benchmark submission is complete, accurate and provided within required timescales.

For those submissions that involve a higher degree of subjectivity documentation explaining the rationale is provided to the compiler.

Review and approval of each submission.

Reporting to other interested parties within the firm (eg internal audit, oversight committee...)

Records of these submissions are maintained and kept for a period of five years.

**e) Information technology**

Restricting access to systems and data.

Providing integrity and resilience to the information processing environment.

Maintaining and developing systems hardware and software.

Recovering from processing interruptions.

**Control objectives for the calculation agent:**

**a) Governance**

The calculation agent will develop specific and detailed compiling guidelines that will cover:

Internal systems and controls to calculate the precise data to be submitted (eg keep relevant records relating to the interest rate benchmark submission process) including periodic management review of the processes and controls.

Establishment of personal responsibilities within BICA, including internal reporting lines and accountability (eg Supervisor of the calculation agents, Oversight Internal Committee, Internal Audit, Compliance and Legal...).

Potential qualifications and relevant experience required to the compilers/supervisors to perform the role. Confirmation should be obtained from these individuals regarding compliance and confidentiality.

Policies for regular training of the staff involved in preparing and reviewing the submitted data, including:

- a. Regulatory responsibilities.
- b. Their potential role in the benchmark or index calculation.
- c. Methodology used for the calculation.
- d. Unacceptable behaviours.
- e. Inputs to take into consideration when performing the calculation.

Segregation of duties

Suspicious submission behaviours.

Disciplinary and/or whistle-blower procedures for attempts to manipulate or failing to report attempted manipulation.

Mechanism to review these policies/guidelines at least annually or more frequently.

Procedures for submitting queries to the contributing firms, and procedures to analyse their responses and implement them accordingly if necessary.

Requirements for internal and external audits in the process.

#### **b) Input Data**

Check that the number of submitters contributing to interest rate benchmark is complete and accurate as per the guidelines/policy for each benchmark or index.

Ensure that all required data has been obtained from each submitter and retained centrally for an appropriate period as per the established guidelines/policy.

Review the submitter's data for unusual or unexpected submissions.

Input the data into the agreed system to perform the calculation.

Perform reconciliation of the original data received from the Submitters and the data entered in the system/model. This reconciliation should be documented and approved.

#### **c) Data analysis**

A re-calculation of the arithmetic mean applying the established thresholds for high and low is performed (where relevant).

The calculated interest rate benchmark is reviewed by the appropriate level of management prior to publishing.

#### **d) Submission**

The final interest rate benchmark to be published is approved by the appropriate level of management.

#### **e) Information technology**

There is restricted access to systems and data.

Information technology is used to provide integrity and resilience to the information processing environment.

Appropriate resource is given to maintaining and developing systems hardware and software.

A plan is in place for recovery from processing interruptions.

## Appendix 8 –Oil price benchmark considerations

The below points are potential considerations for the assurance practitioner when assessing whether to take on an engagement concerning oil price benchmarks and when designing procedures to allow them to perform the required work so as to be able to provide the requisite level of assurance.

- Practitioners should have regard to the IOSCO principles for oil price reporting agencies<sup>11</sup>.
- How the Price Reporting Agency or compiler calculates the benchmark. This varies in complexity and will therefore impact the audit risk on each engagement. For example, The Brent Index considers cargo trades across two months and designated assessments published in media reports. The OPEC Basket Price is weighted by production levels and export levels to main markets. Other considerations can include the weighted average value of different types of oil (component grades/quality) and compensation for transport costs.
- There is relatively little information about the algorithms used to calculate the benchmarks which is shared publicly.
- Inputs to the benchmarks are largely based on market data, but there can be elements of complex judgement. Prices can sometimes be based on bids and offers. Some benchmarks include data which is reported by industry media publications, not oil companies themselves.
- Specialist knowledge and experience may be required so as to be able to form an opinion on the accuracy of a price, due to factors which are highly scientific in nature.

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<sup>11</sup> <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD391.pdf>

## Appendix 9 – 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<sup>12</sup> (information security management) and the COSO framework<sup>13</sup> (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.

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<sup>12</sup> [http://www.iso.org/iso/catalogue\\_detail?csnumber=42103](http://www.iso.org/iso/catalogue_detail?csnumber=42103)

<sup>13</sup> [http://www.coso.org/documents/coso\\_framework\\_body\\_v6.pdf](http://www.coso.org/documents/coso_framework_body_v6.pdf)



## **Appendix 10 – Consultation questions**

**Q1: Do you believe that the suggested model of assurance is the right one?**

**Q2: Do you consider it necessary for there to be a ‘closed loop’ of assurance (ie. assurance on all submitters plus the compiler) for each benchmark? What would you consider to be most useful in a private benchmark vs. a public benchmark, and those which are in the middle ground?**

**Q3: Given their differing complexities, different benchmarks will require different levels of assurance. In what sorts of circumstances would users (compilers) benefit from a self-certification form of assurance (for example by internal audit) and when would external assurance be required?**

**Q4: What other benchmarks or indices do you consider to be systemically important?**

**Q5: Is there anything which is not covered by this guidance in terms of an assurance report people would want.**