PROPOSED INTERNATIONAL FRAMEWORK FOR ASSURANCE ENGAGEMENTS

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Introduction

1. The purpose of this Framework is to define and describe the elements and objectives of an assurance engagement, and to identify those engagements to which International Standards on Auditing (ISAs) and International Standards on Assurance Engagements (ISAEs) apply. It provides a frame of reference for:

(a) Professional accountants in public practice (hereinafter referred to as “practitioners”) when performing assurance engagements. Professional accountants in the public sector refer to the Public Sector Perspective at the end of the Framework. Other professional accountants not in public practice are encouraged to refer to the Framework when performing assurance engagements;

(b) Others involved with assurance engagements, including the intended users of an assurance report and those responsible for the subject matter of an assurance engagement; and

(c) The development by the International Auditing and Assurance Standards Board (IAASB) of ISAs for audits and reviews of historical financial information and of ISAEs for assurance engagements on other subject matters.

1 When this Framework is being applied by a professional accountant not in public practice, e.g., an internal auditor; and:

(a) This Framework, the ISAs or the ISAEs are referred to in the professional accountant’s report;

(b) The professional accountant or other members of the assurance team and, when applicable, the firm, network firm or equivalent (e.g., the practitioner’s employer), are not independent of the entity in respect of which the assurance engagement is being performed, the lack of independence and the nature of the relationship(s) with the entity are prominently disclosed in the professional accountant’s report, which does not include the word “independent” in its title, and the purpose and users of the report are restricted.

Prepared by: Michael Nugent (September 2003)
2. While this Framework provides a frame of reference for assurance engagements, it does not establish standards or provide procedural requirements for the performance of such engagements. ISAs and ISAEs contain basic principles, essential procedures and related guidance that are consistent with the concepts in this Framework, for the performance of assurance engagements. The relationship between the Framework and the ISAs and ISAEs is illustrated in the diagram included as Appendix 1 “Structure of the IAASB’s Technical Pronouncements”, which has been included for information.

23. The following is an overview of this Framework:

- **Introduction**: This Framework deals with assurance engagements performed by practitioners. It provides a frame of reference for practitioners and others involved with assurance engagements, such as those engaging a practitioner.

- **Definition and objective of an assurance engagement and scope of the Framework**: This section defines what is meant by assurance engagements and identifies the objectives of the two types of assurance engagement that are permitted to be performed by a practitioner, which for ease of reference this Framework refers to as reasonable-assurance engagements and limited-assurance engagements.\(^2\) and

- **Scope of the Framework**: This section distinguishes assurance engagements from other engagements performed by practitioners, such as consulting engagements.

- **Acceptance of an assurance engagement**: This section includes it identifies certain characteristics of assurance engagements that must be exhibited before a practitioner can accept such an engagement.

- **Elements of an assurance engagement**: This section identifies and discusses five elements that all assurance engagements performed by practitioners exhibit: a three party relationship, a subject matter, suitable criteria, evidence and an assurance report. It explains important distinctions between the two types of assurance engagement that are permitted to be performed by a practitioner: an audit-level reasonable-assurance engagements and a review-level limited-assurance engagements.\(^3\) The key distinctions between these two types of engagement which are also outlined in the Appendix. This section also discusses the significant variation in the subject matters of assurance engagements, the characteristics that criteria must have to be considered suitable, the role of risk and materiality in assurance engagements, and the form of expression to be used for conclusions on each of the two types of assurance engagement.

**Ethical Principles and Quality Control Standards**

34. In addition to this Framework and ISAs and ISAEs, practitioners who perform assurance engagements are governed by the IFAC Code of Ethics for Professional Accountants (the Code), which establishes fundamental ethical principles for professional accountants, and

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\(^2\) For assurance engagements regarding historical financial information in particular, reasonable assurance engagements are called audits and limited assurance engagements are called reviews.

\(^3\) This Framework uses the terms “audit-level engagement” and “review-level engagement” to distinguish between these two types of assurance engagement. These terms are used for ease of reference only, and it is recognized that various other names may be used for each, including “audit” or “examination,” and “review” or “limited review.”
International Standards on Quality Control (ISQCs), which establish standards and provide guidance on a firm’s system of quality control.4

45. The fundamental ethical principles that all professional accountants are required to observe are set out in Part A of the Code.5 Those principles include:

(a) Integrity;
(b) Objectivity;
(c) Professional competence and due care;
(d) Confidentiality; and
(e) Professional behavior; and
(f) Technical standards.

56. Practitioners also observe Part B of the Code, which includes a conceptual approach to independence that takes into account, for each assurance engagement, threats to independence, accepted safeguards and the public interest. It requires firms and members of assurance teams to identify and evaluate circumstances and relationships that create threats to independence and to take appropriate action to eliminate these threats or to reduce them to an acceptable level by the application of safeguards.

Definition and Objective of an Assurance Engagement and Scope of the Framework

67. “Assurance engagement” means an engagement in which a practitioner expresses a conclusion that is designed to enhance the intended users' degree of confidence that intended users can have about the evaluation or measurement of a subject matter against criteria, when that subject matter is the responsibility of a party, other than the intended users or the practitioner, against criteria.

8. The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement to obtain “reasonable assurance” as the basis for a positive form of expression in the practitioner’s conclusion. The objective of a limited-assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but is less than for an audit level engagement, to obtain “limited assurance” as the basis for a negative form of expression in the practitioner’s conclusion.

4 Additional standards and guidance on quality control procedures for specific types of assurance engagement are set out in ISAs and ISAEs.

4 The Code referred to here is the version revised and issued in November 2001. Section 8 “Independence for Assurance Engagements” of that version is applicable to assurance engagements when the assurance report is dated on or after December 31, 2004. Earlier application is encouraged.

6 Use of the term “intended users” in this Framework includes cases when there is only one intended user.

7 Use of the term “intended users” in this Framework includes cases when there is only one intended user.

8 The responsible party can be one of the intended users, but not the only one.

9 Engagement circumstances include the terms of the engagement, including whether an audit-level or a review-level engagement is being undertaken, the characteristics of the subject matter, the criteria to be used, the needs of the intended users, relevant characteristics of the responsible party and its environment and other matters (e.g., events, transactions, conditions and practices) that may have a significant effect on the engagement.
Scope of the Framework

89. Not all engagements performed by practitioners are assurance engagements. Other engagements frequently performed by practitioners that do not meet the definition of an assurance engagement and which are therefore not covered by this Framework include:

- Engagements covered by International Standards for Related Services, including:
  - Agreed-upon procedures.
  - Compilation of financial or other information.
- The preparation of tax returns where no conclusion conveying assurance is expressed.
- Consulting, or advisory, engagements\(^{10}\) such as management and tax consulting, or engagements in which a practitioner is engaged to testify as an expert witness in accounting, auditing, taxation or other matters given stipulated facts.

910. An assurance engagement may be part of a larger engagement, e.g., when a business acquisition consulting engagement includes conveying assurance regarding historical or prospective financial information. In such circumstances, ISAs and ISAEs apply this Framework is relevant only to the assurance portion of the engagement.\(^{11}\)

11. The following engagements are not included in the scope of this Framework:

(a) Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters; and

(b) Engagements that include professional opinions, views or wording from which a user may derive some assurance, but in which:

(i) Those opinions, views or wording are merely incidental to the overall engagement;

(ii) Any written report issued is expressly restricted for use by only the intended users specified in the report;

\(^{10}\) Consulting, or advisory, engagements employ a professional accountant’s technical skills, education, observations, experiences, and knowledge of the consulting process. The consulting process is an analytical process that typically involves some combination of activities relating to objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results and sometimes implementation and follow-up. Where a report is issued, it is generally in a narrative (or “long form”) style. Generally the work performed is only for the use and benefit of the client. The nature and scope of work is determined by agreement between the professional accountant and the client. Any service that meets the definition of an assurance engagement is not a consulting engagement but an assurance engagement.

\(^{11}\) An engagement that includes professional opinions, views or wording from which a user may derive some assurance is not an assurance engagement under this Framework if:

(a) Those opinions, views or wording are merely incidental to the overall engagement;

(b) Pursuant to a written understanding with the intended users, the engagement is not intended to be an assurance engagement;

(c) The engagement is not represented as an assurance engagement in the professional accountant’s report; and

(d) Any written report issued is restricted to, and will not be distributed beyond the intended users.
(iii) Pursuant to a written understanding with those intended users, the engagement is not intended to be an assurance engagement; and

(iv) The engagement is not represented as an assurance engagement in the professional accountant’s report.

**Reports on Non-assurance Engagements**

A report issued by a practitioner in connection with an engagement that is not an assurance engagement, but which a user of the report could otherwise reasonably mistake for an assurance engagement within the scope of this Framework, is written so as to clearly distinguish it from an assurance report. It is not sufficient for a report that could otherwise reasonably be mistaken for an assurance report if, for example, it:

- Implies compliance with this Framework, to merely exclude reference to ISAs or ISAEs.
- Inappropriately uses the words “assurance”, “audit” or “review”.
- Purports to enhance the degree of confidence users can have about the evaluation or measurement of a subject matter.
- Includes a conclusion that could reasonably be mistaken for a conclusion about a subject matter’s conformance with criteria.

The practitioner may, by agreement with the responsible party, apply the principles of the Framework in an engagement when there are no intended users other than the responsible party but where all other requirements of the ISAs or ISAEs are met. In such cases, the practitioner’s report includes a statement restricting the use of the report to the responsible party.

**Acceptance of an Assurance Engagement**

While there may be many engagements that could meet this definition, a practitioner does not accept an assurance engagement if, unless the practitioner has the necessary competence and the practitioner’s preliminary knowledge of the engagement circumstances indicates that either relevant ethical requirements, such as independence and professional competence, or the requirements of relevant ISAs or ISAEs will not be satisfied. In particular, a practitioner does not accept an assurance engagement unless the practitioner’s preliminary knowledge of the engagement circumstances indicates that the engagement exhibits all the following characteristics:

(a) The subject matter is identifiable, capable of consistent evaluation or measurement against identified, suitable criteria, and in a form that can be subjected to procedures for gathering evidence to support the practitioner’s conclusion that evaluation or measurement;

(b) The criteria to be used are suitable and are available to the intended users;

(c) Sufficient appropriate evidence to support the practitioner’s conclusion is available; and

(d) The practitioner’s conclusion, in the form appropriate to either an audit-level reasonable assurance engagement or a review-level limited-assurance engagement, is to be contained in a written report; and.
(e) The practitioner is satisfied that there is a rational purpose for the engagement.

15. [MODELED ON OLD PARA 29] When a potential assurance engagement cannot be accepted because it does not exhibit all the characteristics in the previous paragraph, the engaging party may be able to identify a different engagement that will meet the needs of intended users, for example:

- If the original criteria were not suitable, an assurance engagement may be able to be performed if:
  
  (a) The engaging party can identify a component of the original subject matter for which those criteria are suitable, and in relation to which the practitioner could perform an assurance engagement as a subject matter in its own right. In such cases, care may need to be taken to prevent the assurance report in relation to the component from being mistaken for a report on the original subject matter in its entirety; or
  
  (b) Alternative criteria that are suitable for the original subject matter can be selected or developed.

- An engagement that is not an assurance engagement, such as a consulting or an agreed-upon procedures engagement in which no conclusion is expressed, may be requested.

16. Having accepted an assurance engagement, a practitioner does not change that engagement to a non-assurance engagement, or from a reasonable-assurance engagement to a limited-assurance engagement, unless there is a reasonable justification for the change.

Elements of an Assurance Engagement

An assurance engagement performed by a practitioner exhibits all of the following elements, each of which is discussed below:

(a) A three party relationship involving:
  
  (i) A practitioner;
  
  (ii) A responsible party; and
  
  (iii) The intended users;

(b) A subject matter;

(c) Suitable criteria;

(d) Evidence; and

(e) An assurance report.

Three Party Relationship

Assurance engagements always involve three separate parties: a practitioner, a responsible party and the intended users. The practitioner gathers evidence to obtain assurance and provide a conclusion to the intended users about whether a subject matter that is the responsibility of a
party other than the intended users or the practitioner, conforms, in all material respects, with identified criteria.

19. The responsible party and the intended users will often be from separate entities but need not be. A responsible party and the intended users may both be within the same entity. For example, where there is a two-tier board structure, the supervisory board may seek assurance about information provided by the management board of that entity. The relationship between the responsible party and the intended users needs to be viewed within the context of a specific engagement and may differ from more traditionally defined lines of responsibility. For example, an entity’s senior management may engage a practitioner to perform an assurance engagement on a particular aspect of the entity’s activities that is the immediate responsibility of a lower level of management but for which senior management is ultimately responsible.

Practitioner

20. The Code defines professional accountants as “those persons, whether they be in public practice (including a sole practitioner, partnership or corporate body), industry, commerce, the public sector or education who are members of an IFAC member body.” The term “practitioner” as used in this Framework means a professional accountant in public practice. It is broader than the term “auditor” as used in ISAs, which relates only to practitioners performing audit or review engagements with respect to historical financial information.

21. Practitioners may be requested to perform assurance engagements on a wide range of subject matters. Some subject matters may require specialist skills and knowledge beyond those that individual practitioners ordinarily possess. In such cases, the practitioner is satisfied that those persons carrying out the engagement collectively possess the requisite skills and knowledge, and that the practitioner has a level of involvement in the engagement and an understanding of the aspects of the work for which any expert is used, sufficient to enable the practitioner to accept responsibility for expressing a conclusion on the subject matter.

Responsible Party

22. The responsible party is the person or persons, either as individuals or as representatives of an entity, responsible for the subject matter. The responsible party may or may not be the party who engages the practitioner (the engaging party).

23. The responsible party ordinarily provides the practitioner with a written representation that evaluates or measures the subject matter against the identified criteria, whether or not it is to be made available as an assertion to the intended users.

Intended Users

24. The intended users are the class of persons (or the individual) for whom the practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one.

25. The intended users may be identified in an agreement between the practitioner and the responsible party or those engaging the practitioner. In some circumstances the intended users

12 The responsible party can be one of the intended users, but not the only one.
are identified by law. Often the intended users are the addressee of the assurance report, but in some cases there are intended users other than the addressee.

4926. Some intended users (e.g., bankers and regulators) may impose a requirement on, or may request the responsible party to arrange for, an assurance engagement to be performed on a particular subject matter. However, other intended users may have no direct involvement in defining the terms of an assurance engagement. When the engagement is designed to meet the needs of specific intended users or for a specific purpose, the practitioner considers stating in the assurance report that its use is restricted to those specific intended users or the specific purpose.

Subject Matter

2027. The subject matter of an assurance engagement can take many forms, such as:

- Information or data about, e.g., historical or prospective financial or other type of performance or conditions, or physical characteristics (e.g., financial statements, statistical information, non-financial performance indicators, capacity of a facility).
- Systems and processes (e.g., internal controls, IT systems).
- Behavior (e.g., corporate governance, compliance with regulation, human resource practices).

21. The subject matter may relate to a point in time or cover a period of time.

22. The subject matter is to be identifiable, capable of consistent evaluation or measurement against identified, suitable criteria, and in a form that can be subjected to procedures for gathering evidence to support that evaluation or measurement.

23. The characteristics of some subject matters include the degree to which it is: qualitative versus quantitative, objective versus subjective, and historical versus prospective, and whether it relates to a point in time or covers a period of time. Such characteristics affect the make them more capable of:

   (a) Precision with which the subject matter can be evaluated or measured against the identified criteria; or and
   (b) A higher degree of support by more The persuasiveness or conclusiveness of evidence available (see paragraph 41 (a)).

These characteristics can include the degree to which the subject matter is: qualitative versus quantitative, objective versus subjective, and historical versus prospective.

29. To be appropriate for an assurance engagement, a subject matter needs to exhibit all the following characteristics; it is:

   (a) Identifiable;
   (b) Capable of consistent evaluation or measurement against the identified criteria; and
   (c) In a form that can be subjected to procedures for gathering sufficient appropriate evidence to support a reasonable assurance or limited-assurance conclusion, as appropriate.

Such Those characteristics that are particularly relevant to the intended users and therefore are described in the assurance report.
Suitable Criteria

2530 Criteria are the benchmarks used to evaluate or measure the subject matter of an assurance engagement including, where relevant, benchmarks for presentation and disclosure of the subject matter. For example: in the preparation of financial statements, the criteria may be International Financial Reporting Standards or International Public Sector Accounting Standards; when reporting on internal control, the criteria may be an established internal control framework or individual control objectives specifically designed for the engagement; and when reporting on compliance, the criteria may be the applicable law, regulation or contract. Some criteria are less formal, such as an internally developed code of conduct or an agreed level of performance, such as the number of times a particular committee is expected to meet in a year. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding.

2631 Criteria need to be suitable to enable reasonably consistent evaluation or measurement of the subject matter within the context of professional judgment. Suitable criteria are context-sensitive, that is, relevant to the engagement circumstances, therefore, the same criteria will not always be selected for the same subject matter. For example, for the subject matter of customer satisfaction, one responsible party may select as a criterion the number of customer complaints resolved to the acknowledged satisfaction of the customer; while another responsible party may select a different criterion, such as the number of repeat purchases in the three months following the initial purchase.

2732 The decision as to whether the criteria are suitable involves considering whether the subject matter is capable of reasonably consistent evaluation or measurement against those criteria. The evaluation or measurement of a subject matter on the basis of the practitioner’s own expectations, judgments and individual experience would not constitute suitable criteria. The characteristics for assessing whether criteria are suitable are as follows:

(a) Relevance: relevant criteria contribute to conclusions that meet the objectives of the engagement, and assist decision-making by the intended users;

(b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances objectives are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure of the subject matter;

(c) Reliability: reliable criteria result in reasonably consistent evaluation or measurement including, where relevant, presentation and disclosure of the subject matter, when used in similar circumstances by similarly qualified practitioners;

(d) Neutrality: neutral criteria are free from bias; and

(e) Understandability: understandable criteria are clear and comprehensive and are not subject to significantly different interpretation.

2833 In assessing the suitability of criteria to a particular engagement, the practitioner considers whether the criteria reflect the above characteristics. The relative importance of each
characteristic to a particular engagement is a matter of judgment. Criteria can be either established or specifically developed. Established criteria are those embodied in laws or regulations, or issued by recognized bodies of experts that follow a transparent due process. Specifically developed criteria are those designed identified for the purpose of the engagement and which are consistent with the engagement objective. Whether criteria are established or specifically developed affects the work that the practitioner carries out to assess their suitability for a particular engagement.

29. Practitioners do not accept an assurance engagement when the criteria are not suitable. In such cases, however, it may be possible to:

(a) Identify a component of the subject matter for which suitable criteria exist, and perform an assurance engagement in relation to that component as a subject matter in its own right. In such cases, care may need to be taken to prevent the assurance report in relation to the component from being mistaken for a report on the original subject matter in its entirety; or

(b) Perform an engagement that is not an assurance engagement, such as an agreed-upon procedures engagement or a consulting services engagement.

30 Identification of the criteria in the reporting of an assurance conclusion is important because it informs the intended users of the basis against which the subject matter has been evaluated or measured in forming that conclusion. Similarly, the criteria need to be available to the intended users. Criteria can be available to the intended users in one or more of the following ways:

(a) Available publicly;
(b) Available to the intended users through inclusion in a clear manner in the presentation of the subject matter;
(c) Available to the intended users through inclusion in a clear manner in the assurance report;
(d) Generally understood by the intended users (e.g., the criterion for measuring time in hours and minutes is generally understood); or
(e) Available only to specific intended users (e.g., the terms of a contract, or criteria issued by an industry association that are available only to those in the industry).

When the identified criteria are available only to specific intended users, or are relevant only to a specific purpose, use of the assurance report is restricted to those specific intended users or that purpose.13

Evidence

345. An assurance engagement involves the practitioner planning and performing the engagement with an attitude of professional skepticism to obtain sufficient appropriate evidence about the subject matter’s conformity, in all material respects, with the identified criteria, and applying

13 While an assurance report may be restricted whenever it is intended only for specified intended users or for a specific purpose, the absence of a restriction regarding a particular reader or purpose, does not itself indicate that a duty of care is owed by the practitioner in relation to that reader or for that purpose. Whether a duty of care is owed will depend on the legal circumstances of each case.
professional judgment in evaluating evidence in order to express a conclusion. For both audit-level reasonable-assurance and review-level limited-assurance engagements, and for all subject matters, this involves a systematic engagement process requiring a base of specialized knowledge and skills, and the application of techniques for gathering and documenting evidence to support the conclusion. The practitioner considers materiality and assurance engagement risk (see paragraph 37) when planning and performing the engagement.

3236. The concepts of sufficiency and appropriateness of evidence are interrelated, and include considering the reliability of evidence. Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence, that is, its relevance and its reliability. The practitioner considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting a reasonable procedure for which there is no reasonable-economically viable alternative. The practitioner uses professional judgment in determining the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report.

3337. The reliability of evidence is influenced by its source and by its nature and is dependent on the individual circumstances under which it is obtained. Generalizations about the reliability of various kinds of evidence can be made; however, such generalizations are subject to important exceptions. For example, evidence obtained from an independent external source may not be reliable if the source is not knowledgeable. While recognizing that exceptions may exist, the following generalizations about the reliability of evidence may be useful:

- Evidence is more reliable when it is obtained from independent sources.
- Evidence that is generated internally is more reliable when the related controls are effective.
- Evidence obtained directly by the practitioner (e.g., observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (e.g., inquiry about the application of a control).
- Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (e.g., a contemporaneously written record of a meeting is more reliable than a subsequent oral representation of what was discussed).
- Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.

3438. An assurance engagement rarely involves the authentication of documentation, nor is the practitioner trained as or expected to be an expert in such authentication. However, the practitioner considers the reliability of the information to be used as evidence, e.g., whether the evidence is comprised of original documents, photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.

3539. Evidence is more reliable when the practitioner obtains consistent evidence from different sources or of a different nature. In these circumstances, the practitioner may obtain more assurance than from items of evidence considered individually. For example, corroborating information obtained from a source independent of an entity may increase the assurance the
practitioner obtains from a representation from the responsible party. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the practitioner determines what additional evidence gathering procedures are necessary to resolve the inconsistency.

3640. In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance on a subject matter covering a period of time than on a subject matter at a point in time. In addition, conclusions provided on processes ordinarily are limited to the period covered by the engagement and do not extend to providing any conclusion about whether the process will continue to function in the specified manner in the future.

Materiality

41. [THIS PARA IS A REPEAT OF ISAE.20.] The practitioner considers materiality when determining the nature, timing and extent of evidence gathering procedures and when evaluating whether the subject matter conforms, in all material respects, with the identified criteria. When considering materiality, the practitioner needs to understands and assesses what factors might influence the decisions of the intended users. For example, when the subject matter is in the form of information and the identified criteria allow for variations in the presentation of that information, the auditor practitioner considers how the presentation adopted might influence the decisions of the intended users. Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the subject matter and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the practitioner’s judgment.

Assurance Engagement Risk

3742. Assurance engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter does not conform, in all material respects, with the identified criteria. In an audit level reasonable assurance engagement, the practitioner reduces assurance engagement risk to an acceptably low level, whereas in a review level engagement, assurance engagement risk is reduced to a moderate level in the circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression in the practitioner’s conclusion. The level of assurance engagement risk is higher in a limited-assurance engagement than in a reasonable assurance engagement because the nature, timing, and extent of evidence gathering procedures is less. However in a limited-assurance engagement, the combination of the nature, timing, and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance on the subject matter’s conformance with the identified criteria (see the Appendix for an outline of the differences between an audit level reasonable assurance engagement and a review level limited-assurance engagement).

14 In addition to assurance engagement risk, the practitioner is exposed to risks through loss from litigation, adverse publicity, or other events arising in connection with a subject matter reported on. The latter risks are not part of assurance engagement risk.
In general, assurance engagement risk can be represented by the following components, although not all of these components will necessarily be present or significant for all assurance engagements:

(a) The risk that the subject matter does not conform, in all material respects, with the identified criteria, which in turn consists of:

(i) Inherent risk: the susceptibility of the subject matter to nonconformity, in a material respect, with the identified criteria, assuming that there are no related controls; and

(ii) Control risk: the risk that a nonconformity, in a material respect, with the identified criteria that could occur will not be prevented, or detected and corrected on a timely basis by related internal controls. Some control risk will always exist because of the inherent limitations of the design and operation of internal control; and

(b) Detection risk: the risk that the practitioner will not detect a nonconformity, in a material respect, with the identified criteria.

The degree to which the practitioner considers each of these components is affected by the engagement circumstances, in particular by the nature of the subject matter and whether an audit-level reasonable assurance or a review-level limited-assurance engagement is being performed.

Nature, Timing and Extent of Evidence Gathering Procedures

The exact nature, timing and extent of evidence gathering procedures the practitioner undertakes will vary from one engagement to the next. In theory, it may be possible to have infinite variations in evidence gathering procedures. In practice, however, it ordinarily is not possible to communicate fine gradations in the nature, timing and extent of evidence gathering procedures in a clear and unambiguous manner. Therefore, this Framework establishes that in any assurance engagement, the practitioner reports only in the form appropriate to one of only two distinct levels of evidence gathering procedures: an audit-level reasonable assurance or a review-level limited-assurance engagement.

In a reasonable assurance engagement, the practitioner obtains “reasonable assurance” as the basis for a conclusion that the subject matter conforms, in all material respects, with the identified criteria (in the case of an unqualified conclusion). Reasonable assurance is a concept relating to the accumulation of evidence necessary for the practitioner to conclude in relation to the subject matter taken as a whole. To be in a position to express a conclusion in the positive form, it is necessary for the practitioner to obtain sufficient appropriate evidence through a systematic engagement process involving:

(a) Obtaining an understanding of the subject matter and other engagement circumstances which, depending on the subject matter, includes obtaining an understanding of internal control;

Where the subject matter is made up of a number of components, separate conclusions may be provided on each component. While not all such conclusions need to relate to the same level of evidence gathering procedures, each conclusion clearly relates to either an audit-level or a review-level.
(b) Assessing the risks of the subject matter not conforming, in all material respects, with the identified criteria;

(c) Responding to assessed risks, which includes developing overall responses, and determining the nature, timing and extent of further procedures;

(d) Performing further procedures that are clearly linked to the risks identified, and include:
   - Using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry;
   - Substantive procedures and, depending on the nature of the subject matter, tests of the operating effectiveness of controls; and
   - Obtaining corroborative evidence through tests of records and tests of responses to inquiries.

(e) Evaluating the sufficiency and appropriateness of evidence obtained.

46. [FOLLOWING TEXT IS EXTRACTED FROM PARA 32] In determining the nature, timing, and extent of evidence gathering procedures for an audit level reasonable assurance engagement, the practitioner considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting a reasonable procedure for which there is no reasonable—economically viable alternative. [FOLLOWING TEXT WAS PARA 47] “Reasonable assurance” obtained in an audit level engagement is less than absolute assurance because reducing assurance engagement risk to zero ordinarily is not very rarely attainable or cost beneficial as a result of such factors as the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to the practitioner is persuasive rather than conclusive, and the use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence, and in some cases, the characteristics of the subject matter.

4047 Sufficient appropriate evidence to reduce assurance engagement risk to a moderate level is obtained through evidence gathering procedures limited (compared to an audit level engagement) to, e.g., inquiry and analytical procedures, based on an understanding of the subject matter and other engagement circumstances and, in certain cases only, additional evidence gathering procedures. In an audit level engagement, the level of evidence gathering procedures is determined by what is reasonable in the circumstances to achieve the objective of the engagement. While a review level engagement involves the application of assurance skills and techniques and the gathering of evidence, the level of evidence gathering procedures is that necessary to achieve the objective of the engagement (i.e., to reduce assurance engagement risk to a moderate level) and ordinarily does not involve obtaining evidence about the design of internal control and determining whether it has been implemented, or obtaining corroborating evidence through tests of records and tests of responses to inquiries, using techniques such as inspection, observation, confirmation, re-calculation and re-performance, which are procedures ordinarily performed during an audit level engagement. While a limited assurance engagement involves the application of assurance skills and techniques and the gathering of sufficient appropriate evidence through a systematic engagement process that includes an understanding of the subject matter and other engagement circumstances, the nature, timing and extent of
evidence gathering is deliberately limited relative to a reasonable assurance engagement. For some subject matters, limitations are set out in an ISA or subject matter-specific ISAE, e.g., ISA 910 “Engagements to Review Financial Statements” establishes that sufficient appropriate evidence for reviews of financial statements is obtained primarily through analytical procedures and inquiries. Where there is no relevant ISA or subject matter-specific ISAE, the nature of limitations will vary with the circumstances of the engagement, in particular: the subject matter, the needs of the intended users and the engaging party, including relevant time and cost constraints. However in a limited-assurance engagement, the combination of the nature, timing, and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance on the subject matter’s conformance with the identified criteria. However, if in a review level limited-assurance engagement a matter comes to the attention of the practitioner that may indicate the subject matter does not conform, in all material respects, with the identified criteria, the practitioner pursues the matter and may need to obtain corroborating evidence, performs other procedures as appropriate.

### Quantity and Quality of Evidence Available

**4448.** Ordinarily, the evidence available to support the evaluation or measurement of the subject matter against the identified criteria will be persuasive rather than conclusive. The quantity or quality of evidence available will be affected by:

(a) The characteristics of the subject matter, e.g., when the subject matter is future oriented, less objective evidence might be expected to exist than when the subject matter is historical (see paragraph 2328(b)); and

(b) The particular circumstances of the engagement other than the characteristics of the subject matter, when evidence that could reasonably be expected to exist is not available to the practitioner for reasons such as the timing of the practitioner’s appointment, an entity’s document retention policy or a restriction imposed by the responsible party.

**42.** Limitations on the quantity or quality of evidence available because of the particular circumstances of the engagement other than the characteristics of the subject matter will, in some cases, prevent the practitioner from being able to express an unqualified audit level conclusion. If the engagement:

(a) Has not been accepted as an audit-level engagement, the practitioner may be able to accept the engagement as a review-level engagement and express an unqualified review level conclusion. Before accepting such an engagement, the practitioner considers whether it is possible and appropriate to provide a review-level conclusion; or

(b) Has been accepted as an audit-level engagement and the practitioner is requested to change it to a review-level engagement or a non-assurance engagement, the practitioner considers the appropriateness of doing so, and does not agree to a change where there is no reasonable justification for it. A change in circumstances that affects the requirements of the intended users, or a misunderstanding concerning the nature of the engagement, is ordinarily considered a reasonable justification for requesting a change in the engagement.

**4349.** It is not appropriate to provide an unqualified assurance conclusion, in relation to either an audit level a reasonable assurance engagement or a review level limited-assurance engagement, when:
(a) Circumstances prevent the practitioner from accessing evidence that the practitioner determines is required to reduce assurance engagement risk to the appropriate level; or

(b) The responsible party imposes a restriction that prevents the practitioner from accessing evidence that the practitioner determines may be required to reduce assurance engagement risk to the appropriate level.

In such cases the practitioner expresses a reservation or denial of conclusion, or withdraws from the engagement.

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affect the assurance the practitioner obtains because they affect the quantity and quality of evidence upon which the practitioner’s conclusion is based.

47. [MOVED TO PARA 39z]

48. In a review-level limited-assurance engagement, the conclusion is expressed in the negative form, e.g., “nothing has come to our attention that causes us to believe that subject matter does not conform, in all material respects, with criteria.” This form of expression conveys a level of “limited assurance,” which indicates that is proportional to, given the level of the practitioner’s evidence gathering procedures and, given the characteristics of the subject matter and engagement circumstances as described in the assurance report, the practitioner has obtained sufficient appropriate evidence to reduce assurance engagement risk to a moderate level. The level of the practitioner’s evidence gathering procedures and the characteristics of the subject matter affect the assurance the practitioner obtains because they affect the quantity and quality of evidence upon which the practitioner’s conclusion is based.

54. [THIS PARA EXTRACTED FROM ISA 700] An auditor may not be able to A practitioner does not express an unqualified opinion conclusion when either of the following circumstances exist and, in the auditor’s practitioner’s judgment, the effect of the matter is or may be material to the financial statements:

(a) there is an unacceptable limitation on the scope of the auditor’s practitioner’s work; or

(b) there is a disagreement with management—the responsible party regarding the subject matter’s conformity, in all material respects, with the criteria, e.g., in a financial statement audit or review, this includes a disagreement regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial statement disclosures; or

(c) The criteria are unsuitable or the subject matter is not appropriate for an assurance engagement.

Depending on how material the matter(s) is, the circumstances described in (a) could-should lead to a qualified opinion conclusion or a disclaimer of conclusion opinion. The circumstances described in (b) and (c) could-should lead to a qualified opinion conclusion or an adverse conclusion opinion.

49. A practitioner is associated with a subject matter when the practitioner attaches a report to that subject matter or consents to the use of the practitioner’s name in a professional connection with that subject matter. If the practitioner is not associated in this manner, third parties can assume no responsibility of the practitioner. If the practitioner learns that a party is inappropriately using the practitioner’s name in association with a subject matter, the practitioner requires the party to cease doing so and consider what further steps, if any, need to be taken, such as informing any known third party users of the inappropriate use of the practitioner’s name. The practitioner may also believe it necessary to take other action, e.g., to seek legal advice.
Effective Date

This ISAE is effective for assurance engagements where the assurance report is dated on or after January 1, 2005. Earlier reference application is permissible.

Public Sector Perspective

1. This Framework is applicable to all professional accountants in the public sector who are independent of the entity for which they perform assurance engagements. Where professional accountants in the public sector are not independent of the entity for which they perform an assurance engagement, this Framework should be applied with particular reference to the guidance in footnote 1 should be adopted.

Appendix 1

Structure of the IAASB’s Technical Pronouncements

Final diagram from the Preface to be added here
### Differences Between Reasonable-assurance Engagements and Limited-assurance Engagements

This Appendix outlines the differences between a reasonable assurance engagement and a limited-assurance engagement discussed in the Framework (see in particular the paragraphs referenced).

<table>
<thead>
<tr>
<th>Type of engagement</th>
<th>Objective</th>
<th>Evidence gathering procedures</th>
<th>The assurance report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonable-assurance</td>
<td>A reduction in assurance engagement risk to an acceptably low level in the</td>
<td>Sufficient appropriate evidence is obtained through a systematic engagement process that includes</td>
<td>Description of the engagement circumstances, and a positive form of expression in the</td>
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<tr>
<td>engagement</td>
<td>circumstances of the engagement, to obtain &quot;reasonable assurance&quot; as the</td>
<td>obtaining an understanding of the engagement circumstances, assessing risks, responding to</td>
<td>conclusion (Paragraph 52)</td>
</tr>
<tr>
<td></td>
<td>basis for a positive form of expression in the practitioner’s conclusion</td>
<td>assessed risks, performing further procedures using:</td>
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<td></td>
<td>(Paragraph 8)</td>
<td>• a combination of inspection, observation, confirmation, re-calculation, re-performance,</td>
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<td></td>
<td></td>
<td>analytical procedures and inquiry;</td>
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<td></td>
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<td>• substantive procedures and, depending on the nature of the subject matter, tests of the</td>
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<td>operating effectiveness of controls; and</td>
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<td>• obtaining corroborating evidence through tests of records and tests of responses to</td>
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<td></td>
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<td>inquiries, and evaluating the evidence obtained (Paragraphs 45 and 46).</td>
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</tbody>
</table>

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1 A detailed discussion of evidence gathering requirements is only possible within ISAEs for specific subject matters.
| **Limited-assurance engagement** | A reduction in assurance engagement risk that is acceptable in the circumstances of the engagement, but is less than for an audit level engagement, to obtain “limited assurance” as the basis for a negative form of expression in the practitioner’s conclusion (Paragraph 8). | Sufficient appropriate evidence is obtained through a systematic engagement process that includes an understanding of the subject matter and other engagement circumstances, but in which procedures are deliberately limited relative to a reasonable assurance engagement. (Paragraph 47) | Description of the engagement circumstances, including limitations on the evidence gathering procedures, and a negative form of expression in the conclusion (Paragraph 53) |