

**INTERNATIONAL STANDARD ON  
ASSURANCE ENGAGEMENTS 3000**

**ASSURANCE ENGAGEMENTS OTHER THAN AUDITS OR REVIEWS OF  
HISTORICAL FINANCIAL INFORMATION**

**[For Reference Purposes Only]**

(Effective for assurance reports dated on or after January 1, 2005)

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International Standard on Assurance Engagements (ISAE) 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” should be read in the context of the [“Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services,”](#) which sets out the application and authority of ISAEs.

## Introduction

1. The purpose of this International Standard on Assurance Engagements (ISAE) is to establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice (for purposes of this ISAE referred to as “practitioners”) for the performance of assurance engagements other than audits or reviews of historical financial information covered by International Standards on Auditing (ISAs) or International Standards on Review Engagements (ISREs).
2. This ISAE uses the terms “reasonable assurance engagement” and “limited assurance engagement” to distinguish between the two types of assurance engagement a practitioner is permitted to perform. 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<sup>1</sup> as the basis for a positive form of expression of 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 where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.

## Relationship with the Framework, Other ISAEs, ISAs and ISREs

3. **The practitioner should comply with this ISAE and other relevant ISAEs when performing an assurance engagement other than an audit or review of historical financial information covered by ISAs or ISREs.** This ISAE is to be read in the context of the “International Framework for Assurance Engagements” (the Framework), which defines and describes the elements and objectives of an assurance engagement, and identifies those engagements to which ISAEs apply. This ISAE has been written for general application to assurance engagements other than audits or reviews of historical financial information covered by ISAs or ISREs. Other ISAEs may relate to topics that apply to all subject matters or be subject matter specific. Although ISAs and ISREs do not apply to engagements covered by ISAEs, they may nevertheless provide guidance to practitioners.

## Ethical Requirements

4. **The practitioner should comply with the requirements of Parts A and B of the IFAC *Code of Ethics for Professional Accountants* (the Code).**
5. The Code provides a framework of principles that members of assurance teams, firms and network firms use to identify threats to independence,<sup>2</sup> evaluate the significance of those

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<sup>1</sup> Engagement circumstances include the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, 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, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.

<sup>2</sup> If a professional accountant not in public practice, for example an internal auditor, applies ISAEs, and (a) the Framework or ISAEs are referred to in the professional accountant's report; and (b) the professional accountant

threats and, if the threats are other than clearly insignificant, identify and apply safeguards to eliminate the threats or reduce them to an acceptable level, such that independence of mind and independence in appearance are not compromised.

## Quality Control

6. **The practitioner should implement quality control procedures that are applicable to the individual engagement.** Under International Standard on Quality Control ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements,”<sup>3</sup> a firm of professional accountants has an obligation to establish a system of quality control designed to provide it with reasonable assurance that the firm and its personnel comply with professional standards and regulatory and legal requirements, and that the assurance reports issued by the firm or engagement partners are appropriate in the circumstances. In addition, elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.

## Engagement Acceptance and Continuance

7. **The practitioner should accept (or continue where applicable) an assurance engagement only if the subject matter is the responsibility of a party other than the intended users or the practitioner.** As indicated in paragraph 27 of the Framework, the responsible party can be one of the intended users, but not the only one. Acknowledgement by the responsible party provides evidence that the appropriate relationship exists, and also establishes a basis for a common understanding of the responsibility of each party. A written acknowledgement is the most appropriate form of documenting the responsible party's understanding. In the absence of an acknowledgement of responsibility, the practitioner considers:
  - (a) Whether it is appropriate to accept the engagement. Accepting it may be appropriate when, for example, other sources, such as legislation or a contract, indicate responsibility; and
  - (b) If the engagement is accepted, whether to disclose these circumstances in the assurance report.

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or other members of the assurance team and, when applicable, the professional accountant'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 assurance client are prominently disclosed in the professional accountant's report. Also, that report does not include the word “independent” in its title, and the purpose and users of the report are restricted.

<sup>3</sup> ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements” was issued in February 2004. Systems of quality control in compliance with ISQC 1 are required to be established by June 15, 2005.

8. **The practitioner should accept (or continue where applicable) an assurance engagement only if, on the basis of a preliminary knowledge of the engagement circumstances, nothing comes to the attention of the practitioner to indicate that the requirements of the Code or of the ISAEs will not be satisfied.** The practitioner considers the matters in paragraph 17 of the Framework and does not accept the engagement unless it exhibits all the characteristics required in that paragraph. Also, if the party engaging the practitioner (the “engaging party”) is not the responsible party, the practitioner considers the effect of this on access to records, documentation and other information the practitioner may require to complete the engagement.
9. **The practitioner should accept (or continue where applicable) an assurance engagement only if the practitioner is satisfied that those persons who are to perform the engagement collectively possess the necessary professional competencies.** A practitioner may be requested to perform assurance engagements on a wide range of subject matters. Some subject matters may require specialized skills and knowledge beyond those ordinarily possessed by an individual practitioner (see paragraphs 26-32).

### **Agreeing on the Terms of the Engagement**

10. **The practitioner should agree on the terms of the engagement with the engaging party.** To avoid misunderstandings, the agreed terms are recorded in an engagement letter or other suitable form of contract. If the engaging party is not the responsible party, the nature and content of an engagement letter or contract may vary. The existence of a legislative mandate may satisfy the requirement to agree on the terms of the engagement. Even in those situations an engagement letter may be useful for both the practitioner and engaging party.
11. **A practitioner should consider the appropriateness of a request, made before the completion of an assurance engagement, to change the engagement to a non-assurance engagement or from a reasonable assurance engagement to a limited assurance engagement, and should not agree to a change without reasonable justification.** A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement, ordinarily will justify a request for a change in the engagement. If such a change is made, the practitioner does not disregard evidence that was obtained prior to the change.

### **Planning and Performing the Engagement**

12. **The practitioner should plan the engagement so that it will be performed effectively.** Planning involves developing an overall strategy for the scope, emphasis, timing and conduct of the engagement, and an engagement plan, consisting of a detailed approach for the nature, timing and extent of evidence-gathering procedures to be performed and the reasons for selecting them. Adequate planning helps to devote appropriate attention to important areas of the engagement, identify potential problems on a timely basis and properly organize and manage the engagement in order for it to be performed in an effective and efficient manner. Adequate planning also assists the practitioner to properly

assign work to engagement team members, and facilitates their direction and supervision and the review of their work. Further, it assists, where applicable, the coordination of work done by other practitioners and experts. The nature and extent of planning activities will vary with the engagement circumstances, for example the size and complexity of the entity and the practitioner's previous experience with it. Examples of the main matters to be considered include:

- The terms of the engagement.
  - The characteristics of the subject matter and the identified criteria.
  - The engagement process and possible sources of evidence.
  - The practitioner's understanding of the entity and its environment, including the risks that the subject matter information may be materially misstated.
  - Identification of intended users and their needs, and consideration of materiality and the components of assurance engagement risk.
  - Personnel and expertise requirements, including the nature and extent of experts' involvement.
13. Planning is not a discrete phase, but rather a continual and iterative process throughout the engagement. As a result of unexpected events, changes in conditions, or the evidence obtained from the results of evidence-gathering procedures, the practitioner may need to revise the overall strategy and engagement plan, and thereby the resulting planned nature, timing and extent of further procedures.
14. **The practitioner should plan and perform an engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter information to be materially misstated.** An attitude of professional skepticism means the practitioner makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party.
15. **The practitioner should obtain an understanding of the subject matter and other engagement circumstances, sufficient to identify and assess the risks of the subject matter information being materially misstated, and sufficient to design and perform further evidence-gathering procedures.**
16. Obtaining an understanding of the subject matter and other engagement circumstances is an essential part of planning and performing an assurance engagement. That understanding provides the practitioner with a frame of reference for exercising professional judgment throughout the engagement, for example when:
- Considering the characteristics of the subject matter;
  - Assessing the suitability of criteria;
  - Identifying where special consideration may be necessary, for example factors indicative of fraud, and the need for specialized skills or the work of an expert;

- Establishing and evaluating the continued appropriateness of quantitative materiality levels (where appropriate), and considering qualitative materiality factors;
  - Developing expectations for use when performing analytical procedures;
  - Designing and performing further evidence-gathering procedures to reduce assurance engagement risk to an appropriate level; and
  - Evaluating evidence, including the reasonableness of the responsible party's oral and written representations.
17. The practitioner uses professional judgment to determine the extent of the understanding required of the subject matter and other engagement circumstances. The practitioner considers whether the understanding is sufficient to assess the risks that the subject matter information may be materially misstated. The practitioner ordinarily has a lesser depth of understanding than the responsible party.

#### **Assessing the Appropriateness of the Subject Matter**

18. **The practitioner should assess the appropriateness of the subject matter.** An appropriate subject matter has the characteristics listed in paragraph 33 of the Framework. The practitioner also identifies those characteristics of the subject matter that are particularly relevant to the intended users, which are to be described in the assurance report. As indicated in paragraph 17 of the Framework, a practitioner does not accept an assurance engagement unless the practitioner's preliminary knowledge of the engagement circumstances indicates that the subject matter is appropriate. After accepting the engagement, however, if the practitioner concludes that the subject matter is not appropriate, the practitioner expresses a qualified or adverse conclusion or a disclaimer of conclusion. In some cases the practitioner considers withdrawing from the engagement.

#### **Assessing the Suitability of the Criteria**

19. **The practitioner should assess the suitability of the criteria to evaluate or measure the subject matter.** Suitable criteria have the characteristics listed in paragraph 36 of the Framework. As indicated in paragraph 17 of the Framework, a practitioner does not accept an assurance engagement unless the practitioner's preliminary knowledge of the engagement circumstances indicates that the criteria to be used are suitable. After accepting the engagement, however, if the practitioner concludes that the criteria are not suitable, the practitioner expresses a qualified or adverse conclusion or a disclaimer of conclusion. In some cases the practitioner considers withdrawing from the engagement.
20. Paragraph 37 of the Framework indicates that criteria can either be established or specifically developed. Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users. When established criteria exist for a subject matter, specific users may agree to other criteria for their specific purposes. For example, various frameworks can be used as established criteria for evaluating the effectiveness of internal control. Specific users may, however, develop a more detailed set of criteria that meet

their specific needs in relation to, for example, prudential supervision. In such cases, the assurance report:

- (a) Notes, when it is relevant to the circumstances of the engagement, that the criteria are not embodied in laws or regulations, or issued by authorized or recognized bodies of experts that follow a transparent due process; and
  - (b) States that it is only for the use of the specific users and for their purposes.
21. For some subject matters, it is likely that no established criteria exist. In those cases, criteria are specifically developed. The practitioner considers whether specifically developed criteria result in an assurance report that is misleading to the intended users. The practitioner attempts to have the intended users or the engaging party acknowledge that specifically developed criteria are suitable for the intended users' purposes. The practitioner considers how the absence of such an acknowledgement affects what is to be done to assess the suitability of the identified criteria, and the information provided about the criteria in the assurance report.

### **Materiality and Assurance Engagement Risk**

22. **The practitioner should consider materiality and assurance engagement risk when planning and performing an assurance engagement.**
23. The practitioner considers materiality when determining the nature, timing and extent of evidence-gathering procedures, and when evaluating whether the subject matter information is free of misstatement. Considering materiality requires the practitioner to understand and assess what factors might influence the decisions of the intended users. For example, when the identified criteria allow for variations in the presentation of the subject matter information, the practitioner considers how the adopted presentation 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 evaluation or measurement of 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.
24. **The practitioner should reduce assurance engagement risk to an acceptably low level in the circumstances of the engagement.** In a reasonable assurance engagement, the practitioner reduces 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 of the practitioner's conclusion. The level of assurance engagement risk is higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures. 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 as the basis for a negative form of expression. To be meaningful, the level of assurance obtained is likely to enhance the

intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

25. Paragraph 49 of the Framework indicates that, in general, assurance engagement risk comprises inherent risk, control risk and detection risk. The degree to which the practitioner considers each of these components is affected by the engagement circumstances, in particular the nature of the subject matter and whether a reasonable assurance or a limited assurance engagement is being performed.

### **Using the Work of an Expert**

26. **When the work of an expert is used in the collection and evaluation of evidence, the practitioner and the expert should, on a combined basis, possess adequate skill and knowledge regarding the subject matter and the criteria for the practitioner to determine that sufficient appropriate evidence has been obtained.**
27. The subject matter and related criteria of some assurance engagements may include aspects requiring specialized knowledge and skills in the collection and evaluation of evidence. In these situations, the practitioner may decide to use the work of persons from other professional disciplines, referred to as experts, who have the required knowledge and skills. This ISAE does not provide guidance with respect to using the work of an expert for engagements where there is joint responsibility and reporting by a practitioner and one or more experts.
28. Due care is a required professional quality for all individuals, including experts, involved in an assurance engagement. Persons involved in assurance engagements will have different responsibilities assigned to them. The extent of proficiency required in performing those engagements will vary with the nature of their responsibilities. While experts do not require the same proficiency as the practitioner in performing all aspects of an assurance engagement, the practitioner determines that the experts have a sufficient understanding of the ISAEs to enable them to relate the work assigned to them to the engagement objective.
29. The practitioner adopts quality control procedures that address the responsibility of each person performing the assurance engagement, including the work of any experts who are not professional accountants, to ensure compliance with this ISAE and other relevant ISAEs in the context of their responsibilities.
30. **The practitioner should be involved in the engagement and understand the work for which an expert is used, to an extent that is sufficient to enable the practitioner to accept responsibility for the conclusion on the subject matter information.** The practitioner considers the extent to which it is reasonable to use the work of an expert in forming the practitioner's conclusion.
31. The practitioner is not expected to possess the same specialized knowledge and skills as the expert. The practitioner has however, sufficient skill and knowledge to:
  - (a) Define the objectives of the assigned work and how this work relates to the objective of the engagement;

- (b) Consider the reasonableness of the assumptions, methods and source data used by the expert; and
  - (c) Consider the reasonableness of the expert's findings in relation to the engagement circumstances and the practitioner's conclusion.
32. **The practitioner should obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the assurance engagement.** In assessing the sufficiency and appropriateness of the evidence provided by the expert, the practitioner evaluates:
- (a) The professional competence, including experience, and objectivity of the expert;
  - (b) The reasonableness of the assumptions, methods and source data used by the expert; and
  - (c) The reasonableness and significance of the expert's findings in relation to the circumstances of the engagement and the practitioner's conclusion.

### **Obtaining Evidence**

33. **The practitioner should obtain sufficient appropriate evidence on which to base the conclusion.** 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 an evidence-gathering procedure for which there is no alternative. The practitioner uses professional judgment and exercises professional skepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report.
34. 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, for example photocopies, facsimiles, filmed, digitized or other electronic documents, including consideration of controls over their preparation and maintenance where relevant.
35. Sufficient appropriate evidence in a reasonable assurance engagement is obtained as part of an iterative, 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;
  - (b) Based on that understanding, assessing the risks that the subject matter information may be materially misstated;
  - (c) Responding to assessed risks, including developing overall responses, and determining the nature, timing and extent of further procedures;

- (d) Performing further procedures clearly linked to the identified risks, using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry. Such further procedures involve substantive procedures, including obtaining corroborating information from sources independent of the entity, and depending on the nature of the subject matter, tests of the operating effectiveness of controls; and
  - (e) Evaluating the sufficiency and appropriateness of evidence.
36. “Reasonable assurance” is less than absolute assurance. Reducing assurance engagement risk to zero is very rarely attainable or cost beneficial as a result of factors such as the following:
- 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.
  - The use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
  - In some cases, the characteristics of the subject matter.
37. Both reasonable assurance and limited assurance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic engagement process that includes obtaining an understanding of the subject matter and other engagement circumstances. The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are, however, deliberately limited relative to a reasonable assurance engagement. For some subject matters, there may be specific ISAEs to provide guidance on procedures for gathering sufficient appropriate evidence for a limited assurance engagement. In the absence of a specific ISAE, the procedures for gathering sufficient appropriate evidence will vary with the circumstances of the engagement, in particular: the subject matter, and the needs of the intended users and the engaging party, including relevant time and cost constraints. For both reasonable assurance and limited assurance engagements, if the practitioner becomes aware of a matter that leads the practitioner to question whether a material modification should be made to the subject matter information, the practitioner pursues the matter by performing other procedures sufficient to enable the practitioner to report.

### **Representations by the Responsible Party**

38. **The practitioner should obtain representations from the responsible party, as appropriate.** Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the responsible party. In particular, the practitioner requests from the responsible party 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. Having no written representation may result in a qualified conclusion or a disclaimer of conclusion on the basis of a limitation on the scope of the engagement. The practitioner may also include a restriction on the use of the assurance report.

39. During an assurance engagement, the responsible party may make representations to the practitioner, either unsolicited or in response to specific inquiries. When such representations relate to matters that are material to the subject matter's evaluation or measurement, the practitioner:
  - (a) Evaluates their reasonableness and consistency with other evidence obtained, including other representations;
  - (b) Considers whether those making the representations can be expected to be well informed on the particular matters; and
  - (c) Obtains corroborative evidence in the case of a reasonable assurance engagement. The practitioner may also seek corroborative evidence in the case of a limited assurance engagement.
40. Representations by the responsible party cannot replace other evidence the practitioner could reasonably expect to be available. An inability to obtain sufficient appropriate evidence regarding a matter that has, or may have, a material effect on the evaluation or measurement of the subject matter, when such evidence would ordinarily be available, constitutes a limitation on the scope of the engagement, even if a representation from the responsible party has been received on the matter.

## Considering Subsequent Events

41. **The practitioner should consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report.** The extent of consideration of subsequent events depends on the potential for such events to affect the subject matter information and to affect the appropriateness of the practitioner's conclusion. Consideration of subsequent events in some assurance engagements may not be relevant because of the nature of the subject matter. For example, when the engagement requires a conclusion about the accuracy of a statistical return at a point in time, events occurring between that point in time and the date of the assurance report, may not affect the conclusion, or require disclosure in the return or the assurance report.

## Documentation

42. **The practitioner should document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with ISAEs.**
43. Documentation includes a record of the practitioner's reasoning on all significant matters that require the exercise of judgment, and related conclusions. The existence of difficult questions of principle or judgment, calls for the documentation to include the relevant facts that were known by the practitioner at the time the conclusion was reached.

44. It is neither necessary nor practical to document every matter the practitioner considers. In applying professional judgment to assessing the extent of documentation to be prepared and retained, the practitioner may consider what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken (but not the detailed aspects of the engagement) to another practitioner who has no previous experience with the engagement. That other practitioner may only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the practitioner who prepared the documentation.

## Preparing the Assurance Report

45. **The practitioner should conclude whether sufficient appropriate evidence has been obtained to support the conclusion expressed in the assurance report.** In developing the conclusion, the practitioner considers all relevant evidence obtained, regardless of whether it appears to corroborate or to contradict the subject matter information.
46. **The assurance report should be in writing and should contain a clear expression of the practitioner's conclusion about the subject matter information.**
47. Oral and other forms of expressing conclusions can be misunderstood without the support of a written report. For this reason, the practitioner does not report orally or by use of symbols without also providing a definitive written assurance report that is readily available whenever the oral report is provided or the symbol is used. For example, a symbol could be hyperlinked to a written assurance report on the Internet.
48. This ISAE does not require a standardized format for reporting on all assurance engagements. Instead it identifies in paragraph 49 the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. The practitioner chooses a “short form” or “long form” style of reporting to facilitate effective communication to the intended users. “Short-form” reports ordinarily include only the basic elements. “Long-form” reports often describe in detail the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement and, in some cases, recommendations, as well as the basic elements. Any findings and recommendations are clearly separated from the practitioner's conclusion on the subject matter information, and the wording used in presenting them makes it clear they are not intended to affect the practitioner's conclusion. The practitioner may use headings, paragraph numbers, typographical devices, for example the bolding of text, and other mechanisms to enhance the clarity and readability of the assurance report.

## Assurance Report Content

49. **The assurance report should include the following basic elements:**
  - (a) **A title that clearly indicates the report is an independent assurance report:**<sup>4</sup> an appropriate title helps to identify the nature of the assurance report, and to distinguish it from reports issued by others, such as those who do not have to comply with the same ethical requirements as the practitioner.
  - (b) **An addressee:** an addressee identifies the party or parties to whom the assurance report is directed. Whenever practical, the assurance report is addressed to all the intended users, but in some cases there may be other intended users.
  - (c) **An identification and description of the subject matter information and, when appropriate, the subject matter:** this includes for example:

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<sup>4</sup> See footnote 2.

- The point in time or period of time to which the evaluation or measurement of the subject matter relates;
- Where applicable, the name of the entity or component of the entity to which the subject matter relates; and
- An explanation of those characteristics of the subject matter or the subject matter information of which the intended users should be aware, and how such characteristics may influence the precision of the evaluation or measurement of the subject matter against the identified criteria, or the persuasiveness of available evidence. For example:
  - The degree to which the subject matter information is qualitative versus quantitative, objective versus subjective, or historical versus prospective.
  - Changes in the subject matter or other engagement circumstances that affect the comparability of the subject matter information from one period to the next.

When the practitioner's conclusion is worded in terms of the responsible party's assertion, that assertion is appended to the assurance report, reproduced in the assurance report or referenced therein to a source that is available to the intended users.

- (d) **Identification of the criteria:** the assurance report identifies the criteria against which the subject matter was evaluated or measured so the intended users can understand the basis for the practitioner's conclusion. The assurance report may include the criteria, or refer to them if they are contained in an assertion prepared by the responsible party that is available to the intended users or if they are otherwise available from a readily accessible source. The practitioner considers whether it is relevant to the circumstances, to disclose:
- The source of the criteria, and whether or not the criteria are embodied in laws or regulations, or issued by authorized or recognized bodies of experts that follow a transparent due process, that is, whether they are established criteria in the context of the subject matter (and if they are not, a description of why they are considered suitable);
  - Measurement methods used when the criteria allow for choice between a number of methods;
  - Any significant interpretations made in applying the criteria in the engagement circumstances; and
  - Whether there have been any changes in the measurement methods used.
- (e) **Where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria:** while in some cases, inherent limitations can be expected to be well understood by readers of an assurance report, in other cases it may be appropriate to make explicit reference in the assurance report. For example, in an assurance report

related to the effectiveness of internal control, it may be appropriate to note that the historic evaluation of effectiveness is not relevant to future periods due to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

- (f) **When the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose:** in addition, whenever the assurance report is intended only for specific intended users or a specific purpose, the practitioner considers stating this fact in the assurance report.<sup>5</sup> This provides a caution to readers that the assurance report is restricted to specific users or for specific purposes.
- (g) **A statement to identify the responsible party and to describe the responsible party's and the practitioner's responsibilities:** this informs the intended users that the responsible party is responsible for the subject matter in the case of a direct reporting engagement, or the subject matter information in the case of an assertion-based engagement,<sup>6</sup> and that the practitioner's role is to independently express a conclusion about the subject matter information.
- (h) **A statement that the engagement was performed in accordance with ISAEs:** where there is a subject matter specific ISAE, that ISAE may require that the assurance report refer specifically to it.
- (i) **A summary of the work performed:** the summary will help the intended users understand the nature of the assurance conveyed by the assurance report. [ISA 700, "The Auditor's Report on Financial Statements"](#)<sup>7</sup> and [ISRE 2400, "Engagements to Review Financial Statements"](#) provide a guide to the appropriate type of summary.

Where no specific ISAE provides guidance on evidence-gathering procedures for a particular subject matter, the summary might include a more detailed description of the work performed.

Because in a limited assurance engagement an appreciation of the nature, timing, and extent of evidence-gathering procedures performed is essential to understanding the assurance conveyed by a conclusion expressed in the negative form, the summary of the work performed:

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<sup>5</sup> 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 legal responsibility is owed by the practitioner in relation to that reader or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.

<sup>6</sup> Refer to paragraph 10 of the Framework for an explanation of the distinction between a direct engagement and an assertion-based engagement.

<sup>7</sup> [ISA 700, "The Auditor's Report on Financial Statements"](#) was withdrawn in December 2006 when [ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements"](#) became effective.

- (i) Is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing, and extent of evidence-gathering procedures. It may be appropriate to indicate procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement; and
- (ii) States that the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and that therefore less assurance is obtained than in a reasonable assurance engagement.
- (j) **The practitioner's conclusion:** where the subject matter information is made up of a number of aspects, separate conclusions may be provided on each aspect. While not all such conclusions need to relate to the same level of evidence-gathering procedures, each conclusion is expressed in the form that is appropriate to either a reasonable-assurance or a limited assurance engagement.
- (k) **Where appropriate, the conclusion should inform the intended users of the context in which the practitioner's conclusion is to be read:** the practitioner's conclusion may, for example, include wording such as: "This conclusion has been formed on the basis of, and is subject to the inherent limitations outlined elsewhere in this independent assurance report." This would be appropriate, for example, when the report includes an explanation of particular characteristics of the subject matter of which the intended users should be aware.
- (l) **In a reasonable assurance engagement, the conclusion should be expressed in the positive form:** for example: "In our opinion internal control is effective, in all material respects, based on XYZ criteria" or "In our opinion the responsible party's assertion that internal control is effective, in all material respects, based on XYZ criteria, is fairly stated."
- (m) **In a limited assurance engagement, the conclusion should be expressed in the negative form:** for example: "Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control is not effective, in all material respects, based on XYZ criteria" or "Based on our work described in this report, nothing has come to our attention that causes us to believe that the responsible party's assertion that internal control is effective, in all material respects, based on XYZ criteria, is not fairly stated."
- (o) **Where the practitioner expresses a conclusion that is other than unqualified, the assurance report should contain a clear description of all the reasons:** (also see paragraphs 51-53).
- (p) **The assurance report date:** this informs the intended users that the practitioner has considered the effect on the subject matter information and on the assurance report of events that occurred up to that date.
- (q) **The name of the firm or the practitioner, and a specific location, which ordinarily is the city where the practitioner maintains the office that has responsibility for the engagement:** this informs the intended users of the individual or firm assuming responsibility for the engagement.

50. The practitioner may expand the assurance report to include other information and explanations that are not intended to affect the practitioner's conclusion. Examples include: details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, findings relating to particular aspects of the engagement, and recommendations. Whether to include any such information depends on its significance to the needs of the intended users. Additional information is clearly separated from the practitioner's conclusion and worded in such a manner so as not to affect that conclusion.

### **Qualified Conclusions, Adverse Conclusions and Disclaimers of Conclusion**

51. **The practitioner should not express an unqualified conclusion when the following circumstances exist and, in the practitioner's judgment, the effect of the matter is or may be material:**
- **There is a limitation on the scope of the practitioner's work, that is, circumstances prevent, or the responsible party or the engaging party imposes a restriction that prevents, the practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level. The practitioner should express a qualified conclusion or a disclaimer of conclusion;**
  - **In those cases where:**
    - **The practitioner's conclusion is worded in terms of the responsible party's assertion, and that assertion is not fairly stated, in all material respects; or**
    - **The practitioner's conclusion is worded directly in terms of the subject matter and the criteria, and the subject matter information is materially misstated,<sup>8</sup>****the practitioner should express a qualified or adverse conclusion; or**
  - **When it is discovered, after the engagement has been accepted, that the criteria are unsuitable or the subject matter is not appropriate for an assurance engagement. The practitioner should express:**
    - **A qualified conclusion or adverse conclusion when the unsuitable criteria or inappropriate subject matter is likely to mislead the intended users; or**
    - **(A qualified conclusion or a disclaimer of conclusion in other cases.**
52. **The practitioner should express a qualified conclusion when the effect of a matter is not so material or pervasive as to require an adverse conclusion or a disclaimer of**

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<sup>8</sup> In those direct reporting engagements where the subject matter information is presented only in the practitioner's conclusion, and the practitioner concludes that the subject matter does not, in all material respects, conform with the criteria, for example: "In our opinion, except for [...], internal control is effective, in all material respects, based on *XYZ criteria*," such a conclusion would also be considered to be qualified (or adverse as appropriate).

**conclusion. A qualified conclusion is expressed as being “except for” the effects of the matter to which the qualification relates.**

53. In those cases where the practitioner's unqualified conclusion would be worded in terms of the responsible party's assertion, and that assertion has identified and properly described that the subject matter information is materially misstated, the practitioner either:
- Expresses a qualified or adverse conclusion worded directly in terms of the subject matter and the criteria; or
  - If specifically required by the terms of the engagement to word the conclusion in terms of the responsible party's assertion, expresses an unqualified conclusion but emphasizes the matter by specifically referring to it in the assurance report.

### **Other Reporting Responsibilities**

54. **The practitioner should consider other reporting responsibilities, including the appropriateness of communicating relevant matters of governance interest arising from the assurance engagement with those charged with governance.**
55. In this ISAE, “governance” describes the role of persons entrusted with the supervision, control and direction of a responsible party.<sup>9</sup> Those charged with governance ordinarily are accountable for ensuring that an entity achieves its objectives and for reporting to interested parties. If the engaging party is different from the responsible party it may not be appropriate to communicate directly with the responsible party or those charged with governance over the responsible party.
56. In this ISAE, “relevant matters of governance interest” are those that arise from the assurance engagement and, in the practitioner's opinion, are both important and relevant to those charged with governance. Relevant matters of governance interest include only those matters that have come to the attention of the practitioner while performing the assurance engagement. If the terms of the engagement do not specifically require it, the practitioner is not required to design procedures for the specific purpose of identifying matters of governance interest.

### **Effective Date**

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

### **Public Sector Perspective**

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<sup>9</sup> In many countries, principles of governance have been developed as a point of reference for establishing good governance behavior. Such principles often focus on publicly traded companies; they may however, also serve to improve governance in other forms of entities. There is no single model of good governance. Governance structures and practices vary from country to country.

1. *This ISAE 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 ISAE should be applied with particular reference to the guidance in footnotes 2 and 4.*