

**DRAFT REVISED ISAE 3000 “Assurance Engagements
Other than Audits or Reviews of Historical Financial Information.”**

Introduction

1. This International Standard on Assurance Engagements (ISAE) deals with assurance engagements other than audits or reviews of historical financial information, which are dealt with in International Standards on Auditing (ISAs) and International Standards on Review Engagements (ISREs), respectively.
2. When the subject matter information of an assurance engagement includes both historical financial information and other information, this ISAE applies except for audits or reviews where the other information is merely incidental to the overall assurance engagement, in which case the ISAs or ISREs apply. (Ref: Para A14)

Relationship with other Pronouncements

3. 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. Where a subject matter-specific ISAE is relevant to the subject matter of a particular engagement, that ISAE applies in addition to this ISAE.

Effective Date

4. This ISAE is effective for assurance engagements where the assurance report is dated on or after [date].

Overall Objectives of the Practitioner

5. In conducting an assurance engagement, the overall objectives of the practitioner are to
 - (a) To obtain the desired level of assurance (reasonable or limited) about whether the reported outcome of the measurement or evaluation of the underlying subject matter (i.e., the subject matter information) is free from material misstatement;
 - (b) To form a conclusion on that outcome based on an evaluation of the engagement evidence obtained;
 - (c) To express clearly that conclusion through a written report that also describes the basis for the conclusion; and
 - (d) Communicate as required by the ISAEs in accordance with the practitioner’s findings; or
6. In all cases when the desired level of assurance (reasonable or limited) cannot be obtained and a qualified conclusion in the practitioner’s assurance report is insufficient in the circumstances for purposes of reporting to the intended users, the ISAEs require that the practitioner disclaim a conclusion or withdraw (or resign) from the engagement, where withdrawal is possible under applicable law or regulation.

Definitions

7. For purposes of this ISAE and other ISAEs, unless indicated to the contrary, the following terms have the meanings attributed below. Appendix 1 includes further definitions from the Handbook's Glossary of Terms adapted as necessary for application to assurance engagements other than audits or reviews of historical financial information.¹
- (a) Assurance engagement – an engagement in which a practitioner gathers sufficient appropriate engagement evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the managing party or the measurer or evaluator about the outcome of the evaluation or measurement of an underlying subject matter against criteria. Assurance engagements can be classified on two dimensions, with each assurance engagement being:
- (i) Either a reasonable engagement or a limited assurance engagement: (Ref: Para. A1)
- Reasonable assurance engagement – An assurance engagement in which the objective is to obtain sufficient appropriate engagement evidence to reduce engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner's conclusion.
 - Limited assurance engagement – An assurance engagement in which the objective is to obtain sufficient appropriate engagement evidence through procedures that are limited compared with those necessary for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion. (Ref: Para. A2)
- (ii) Either an attestation engagement or a direct engagement: (Ref: Para. A3–A5)
- Attestation engagement – An assurance engagement in which a party(ies) other than the practitioner measures or evaluates the underlying subject matter against the criteria and presents the resulting subject matter information in a report or statement.
 - Direct engagement – An assurance engagement in which the practitioner evaluates or measures the underlying subject matter against the criteria and presents the resulting subject matter information as part of, or accompanying, the assurance report. (Ref: Para. A6)
- (b) Assurance skill and techniques – Assurance skills and techniques include: an attitude of professional skepticism, professional judgment in assessing such things as materiality and risks; a strategic approach to planning an assurance engagement; a systematic approach to obtaining evidence; understanding of information systems and the role and limitations of internal control; evidence-gathering and evaluation (such as linking the consideration of materiality and risks to the nature, timing and extent of procedures; sampling; observation;

¹ Handbook of International Standards on Auditing and Quality Control.

third-party confirmation processes; and analytical skills including advanced techniques); rigorous documentation practices; and, report-writing skills. Assurance skills are distinct from expertise in the underlying subject matter of any particular assurance engagement.

- (c) Criteria –the benchmarks used to evaluate or measure the underlying subject matter including, where relevant, those for presentation and disclosure. (Ref: Para. A7)
- (d) Engagement circumstances – the broad context defining the particular engagement, which include the terms of the engagement, including whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the underlying subject matter, the evaluation or measurement criteria to be used, the information needs of the intended users, relevant characteristics of the parties to the engagement and their environment, and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.
- (e) Engagement risk – The risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.²
- (f) Engaging party – The party(ies) that engages the practitioner to perform the assurance engagement. The engagement party may be, for example, management or those charged with governance of the entity, the legislature, or the intended users.
- (g) Entity – (Ref: Para. A38)
 - (i) In a direct assurance engagement, the managing party; or
 - (ii) In the case of an attestation engagement, the measurer or evaluator, which may also be the managing party.
- (h) Intended users – The individual(s) or organization(s), or class(es) thereof for whom the practitioner prepares the assurance report. (Ref: Para. A9–A11)
- (i) Managing party – The party(ies) responsible for the underlying subject matter.
- (j) Measurer or evaluator – The party(ies) responsible for measuring or evaluating the underlying subject matter against criteria.
- (k) Practitioner –The person or persons conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm) by applying assurance skills and techniques to obtain the desired level of assurance (reasonable or limited) about whether the subject matter

² (a) This includes the risk, in direct assurance engagements, that the practitioner inappropriately concludes that the subject matter information does, in all material respects, conform with the criteria, for example: “In our opinion, internal control is effective, in all material respects, based on XYZ criteria.”

(b) For purposes of the ISAEs, assurance engagement risk does not include the risk that the practitioner might express a conclusion that the subject matter information is materially misstated when it is not. This risk is ordinarily insignificant. Further, assurance engagement risk is a technical term related to the assurance process; it does not refer to the practitioner’s business risks such as loss from litigation, adverse publicity, or other events arising in connection with a subject matter reported on. These risks are not part of assurance engagement risk.

information is free from material misstatement. In a direct engagement, the practitioner both evaluates or measures the underlying subject matter against the criteria and obtains the desired level of assurance (reasonable or limited) about whether the outcome of that measurement or evaluation is free from material misstatement. Where this ISAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used.

- (l) Subject matter information – The outcome of evaluating or measuring the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter. (Ref: Para. A12)
- (m) Underlying subject matter – The phenomenon that is evaluated or measured by applying criteria. For example, with respect to controls, the underlying subject matter may include one or more of their design, implementation and operating effectiveness.

Requirements

Conduct of an Assurance Engagement in Accordance with ISAEs

Complying with Standards that are Relevant to the Engagement

- 8. The practitioner shall comply with ISAE 3000 and:
 - (a) Any subject matter-specific ISAEs relevant to the engagement; and
 - (b) If the subject matter information includes historical financial information that is not merely incidental to the overall assurance engagement, the ISAs or ISAEs adapted as necessary in the circumstances.
- 9. The practitioner shall not represent compliance with ISAEs unless the practitioner has complied with the requirements of: this ISAE; all other ISAEs relevant to the engagement; and, if applicable, the requirements of the ISAs or ISREs adapted as necessary in the circumstances. (Ref. Para: A13–A15)

Text of an ISAE

- 10. The practitioner shall have an understanding of the entire text of an ISAE, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref. Para: A16–A19)

Objectives Stated in Individual ISAEs

- 11. The objectives in an ISAE provide the context in which the requirements of the ISAE are set, and are intended to assist in:
 - (a) Understanding what is to be accomplished; and
 - (b) Deciding whether more needs to be done to achieve the objectives.

Complying with Relevant Requirements

12. Subject to the following paragraph, the practitioner shall comply with each requirement of an ISAE unless, in the circumstances of the engagement:
 - (a) The entire ISAE is not relevant; or
 - (b) The requirement is not relevant because it is conditional and the condition does not exist.
13. In exceptional circumstances, the practitioner may judge it necessary to depart from a relevant requirement in an ISAE. In such circumstances, the practitioner shall perform alternative procedures to achieve the aim of that requirement. The need for the practitioner to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the engagement, that procedure would be ineffective in achieving the aim of the requirement.

Failure to Achieve an Objective

14. If the objectives in a relevant ISAE cannot be achieved, the practitioner shall evaluate whether this requires the practitioner to modify the practitioner's conclusion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve the objectives in a relevant ISAE represents a significant matter requiring documentation in accordance with paragraph 61 of this ISAE.

Quality Control, Competency, and Ethical Requirements

15. The engagement partner shall:
 - (a) Be a member of a firm that applies ISQC 1 (or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding);³ (Ref: Para. A20 and A21)
 - (b) Have specialist knowledge and experience in assurance skills and techniques developed through extensive training and practical application; and (Ref: Para. A20 and A22)
 - (c) Have sufficient skills, knowledge and experience with respect to the subject matter to accept responsibility for the assurance conclusion. (Ref: Para. A23)
16. The practitioner shall comply with Parts A and B of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (the IESBA Code) (or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding). (Ref: Para. A20 and A24–A28)

Acceptance and Continuance

17. The practitioner shall accept or continue an assurance engagement only when the basis upon which it is to be performed has been agreed, through:

³ International Standard on Quality Control (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements."

- (a) Establishing whether the preconditions for an assurance engagement are present;
- (b) Confirming that there is a common understanding between the practitioner and the engaging party of the terms of the engagement, including the practitioner's reporting responsibilities
- (c) The engagement partner being satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and assurance engagements have been followed, and determined that conclusions reached in this regard are appropriate (see paragraph 21).

Agreeing on the Terms of the Engagement

18. The agreed terms of the engagement shall be recorded in an engagement letter or other suitable form of written agreement. (Ref: Para. A29)

Preconditions for the Engagement

19. In order to establish whether the preconditions for an assurance engagement are present, the practitioner shall determine whether:
- (a) The roles and responsibilities of the parties to the engagement are appropriate; (Ref: Para. A30–A31)
 - (b) The engagement exhibits all of the following characteristics:
 - (i) The underlying subject matter is appropriate; (Ref: Para. A32–A36)
 - (ii) The criteria to be applied in the preparation of the subject matter information used are suitable and will be available to the intended users; (Ref: Para. A37–A43)
 - (iii) The practitioner will have access to sufficient appropriate engagement evidence to support the practitioner's conclusion; (Ref: Para. A44–A46)
 - (iv) The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
 - (v) A rational purpose. (Ref: Para. A47)
20. If the preconditions for an assurance engagement are not present, the practitioner shall discuss the matter with the engaging party. If changes cannot be made to meet the preconditions, the practitioner shall not accept the engagement as an assurance engagement unless required by law or regulation to do so. However, an engagement conducted under such circumstances does not comply with ISAEs. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 or any other ISAE(s).

Engagement acceptance and continuance procedures relevant to the team

21. In determining that conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements are appropriate, as required by paragraph 17(c), the practitioner shall:

- (a) Be satisfied that the engagement team and any practitioner's external experts collectively have the appropriate competence and capabilities to: (Ref: Para. A48 and A49–A50)
 - (i) Perform the engagement in accordance with professional standards and applicable legal and regulatory requirements; and
 - (ii) Enable an assurance report that is appropriate in the circumstances to be issued.
- (b) Evaluate whether the engagement team will be able to be involved, to the extent necessary to obtain sufficient appropriate engagement evidence regarding the subject matter information, in the work of:
 - (i) A practitioner's expert where the work of that expert is to be used; and (Ref: Para. A49–A50)
 - (ii) Another practitioner where the work of that practitioner is to be used. (Ref: Para. A51)
- (c) Have no reason to believe that relevant ethical requirements, such as independence and professional competence, will not be satisfied.

Acceptance of a Change in the Terms of the Engagement

22. The practitioner shall not agree to a change in the terms of the engagement where there is no reasonable justification for doing so. If such a change is made, the practitioner shall not disregard engagement evidence that was obtained prior to the change. (Ref: Para. A52)

Assurance Report Prescribed by Law or Regulation

23. In some cases, law or regulation of the relevant jurisdiction prescribes the layout or wording of the assurance report. In these circumstances, the practitioner shall evaluate:
- (a) Whether users might misunderstand the assurance obtained from the engagement and, if so,
 - (b) Whether additional explanation in the assurance report can mitigate possible misunderstanding.

If the practitioner concludes that additional explanation in the assurance report cannot mitigate possible misunderstanding, the practitioner shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with ISAEs. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 or any other ISAE(s).

Engagement Level Quality Control

24. The engagement partner shall take responsibility for the overall quality on the engagement. This includes responsibility for:
- (a) Following appropriate procedures regarding the acceptance and continuance of client relationships and engagements;

- (b) Being satisfied that the engagement team collectively has the appropriate competence and capabilities to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements;
 - (c) Directing, supervising, planning and performing the engagement to achieve compliance with professional standards and applicable legal and regulatory requirements;
 - (d) Reviews being performed in accordance with the firm's review policies and procedures, and reviewing the engagement documentation on or before the date of the assurance report. (Ref: Para. A53)
 - (e) Maintaining appropriate engagement documentation to provide evidence of achievement of the practitioner's objectives, and that the engagement was performed in accordance with the ISAEs and relevant legal and regulatory requirements;
 - (f) The engagement team undertakes appropriate consultation on difficult or contentious matters; and
 - (g) For engagements, if any, for which an engagement quality control review is required by law or regulation or the firm's quality control policies and procedures, discussing significant matters arising during the engagement with the engagement quality control reviewer, and not dating the assurance report until completion of that review. (Ref: Para. A54)
25. Throughout the engagement, the engagement partner shall remain alert, through observation and making inquiries as necessary, for evidence of non-compliance with relevant ethical requirements by members of the engagement team. If matters come to the engagement partner's attention through the firm's system of quality control or otherwise that indicate that members of the engagement team have not complied with relevant ethical requirements, the engagement partner, in consultation with others in the firm, shall determine the appropriate action. (Ref: Para. A55)
26. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the review engagement.

Professional Skepticism and Professional Judgment

27. The practitioner shall plan and perform an engagement with professional skepticism recognizing that circumstances may exist that cause the subject matter information to be materially misstated.⁴ (Ref: Para. A56–A60)
28. The practitioner shall exercise professional judgment in planning and performing an assurance engagement.⁵ (Ref: Para. A61–A65)

⁴ See paragraphs x-y of the Assurance Framework for further detail regarding the application of professional skepticism in an assurance engagement.

⁵ See paragraphs x-y of the Assurance Framework for further detail regarding the application of professional judgment in an assurance engagement.

Planning and Performing the Engagement

Planning

29. The practitioner shall plan the engagement so that it will be performed in an effective manner. (Ref: Para. A66–A67)
30. The practitioner shall: (Ref: Para. A68)
 - (a) Establish an overall engagement strategy that sets the scope, timing and direction of the engagement, and that guides the development of the engagement plan; and (Ref: Para. A69)
 - (b) Develop an engagement plan that shall include a description of the nature timing and extent of planned evidence-gathering procedures that are required to be carried out so that the engagement complies with ISAEs.

Materiality

31. The practitioner shall consider materiality when planning and performing the assurance engagement.
32. The practitioner shall consider materiality when determining the nature, timing and extent of evidence-gathering procedures, and when evaluating whether the subject matter information is free from misstatement. (Ref: Para. A70–A75)

Risk

33. The practitioner shall consider engagement risk when planning and performing the assurance engagement. (Ref: Para. A76–A78)

Obtaining Engagement Evidence

34. The practitioner shall obtain an understanding of the subject matter and other engagement circumstances sufficient to design and perform evidence-gathering procedures to obtain sufficient appropriate engagement evidence on which to base the practitioner's conclusion. (Ref: Para. A79–A80)
35. When designing and performing evidence-gathering procedures, the practitioner shall consider the relevance and reliability of the information to be used as engagement evidence. If:
 - (a) Engagement evidence obtained from one source is inconsistent with that obtained from another; or
 - (b) The practitioner has doubts over the reliability of information to be used as engagement evidence,the practitioner shall determine what changes or additions to evidence-gathering procedures are necessary to resolve the matter, and shall consider the effect of the matter, if any, on other aspects of the engagement.

Evidence-gathering Procedures

36. The practitioner shall apply assurance skills and techniques to gather sufficient appropriate engagement evidence as part of an iterative, systematic engagement process. (Ref: Para. A81–A87)
37. In a reasonable assurance engagement the practitioner shall:
 - (a) Obtain an understanding of the underlying subject matter and other engagement circumstances which, when relevant to the subject matter and other engagement circumstances, includes an understanding of internal control over the preparation of the subject matter information;
 - (b) Based on that understanding, identify what could be incorrectly evaluated or measured, or incorrectly presented, and assess the risk that the subject matter information may be materially misstated;
 - (c) Respond to assessed risks, including developing overall responses, and determining the nature, timing and extent of further procedures that are clearly linked to the assessed risks;
 - (d) Perform those procedures, using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry. Those procedures shall involve substantive procedures, including obtaining corroborating information from independent sources, and when relevant to the engagement circumstances, tests of the operating effectiveness of controls over the preparation of the subject matter information; and
 - (e) Evaluate the sufficiency and appropriateness of engagement evidence.
38. The procedures for gathering sufficient appropriate engagement evidence in a limited assurance engagement shall be limited relative to a reasonable assurance engagement. For some subject matters, a specific ISAE may include requirements regarding the nature, timing and extent of evidence-gathering procedures for a limited assurance engagement. In the absence of a specific ISAE, the practitioner shall determine the nature, timing and extent of procedures in accordance with the circumstances of the engagement, in particular: the underlying subject matter, and the information needs of the intended users and the engaging party, including relevant time and cost constraints.
39. If the practitioner becomes aware of a matter that leads the practitioner to question whether a material amendment should be made to the subject matter information, the practitioner shall pursue the matter by performing other procedures sufficient to enable the practitioner to report.

Written Representations

40. In an attestation engagement, the practitioner shall request from the measurer or evaluator a written representation about the evaluation or measurement of the underlying subject matter against the identified criteria. In a direct engagement, the practitioner shall request from the managing party a written representation that acknowledges responsibility for the underlying subject matter.

41. When representations received by the practitioner, either unsolicited or in response to specific inquiries, relate to matters that are material to the subject matter information, the practitioner shall:
- (a) Evaluate their reasonableness and consistency with other engagement evidence obtained, including other representations;
 - (b) Consider whether those making the representations can be expected to be well informed on the particular matters; and
 - (c) Obtain 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. (Ref: Para. A88–A89)

Requested Written Representations Not Provided

42. If one or more of the requested written representations are not provided or the practitioner concludes that there is sufficient doubt about the integrity of those providing the written representations that the written representations are not reliable, the practitioner shall:
- (a) Discuss the matter with the entity;
 - (b) Reevaluate the integrity of the entity and evaluate the effect that this may have on the reliability of representations (oral or written) and engagement evidence in general; and
 - (c) Take appropriate actions, including determining the possible effect on the conclusion in the assurance report.

Considerations when a Practitioner's Expert is Involved on the Engagement

43. The nature, timing and extent of the practitioner's procedures with respect to a practitioner's expert will vary depending on the engagement circumstances. (Ref: Para. A90–A94)
44. When the work of a practitioner's expert is to be used, the practitioner shall:
- (a) Evaluate whether the practitioner's expert has the necessary competence, capabilities and objectivity for the practitioner's purposes; (Ref: Para. A95–A98)
 - (b) Obtain a sufficient understanding of the field of expertise of the practitioner's expert; (Ref: Para. A99–A100)
 - (c) Agree with the practitioner's expert on the nature, scope and objectives of that expert's work; and (Ref: Para. A101–102)
 - (d) Evaluate the adequacy of the practitioner's expert's work for the practitioner's purposes. (Ref: Para. A103–A104)

Considering Subsequent Events

45. When relevant to the engagement, the practitioner shall consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report, and shall respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the

practitioner at that date, may have caused the practitioner to amend 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. (Ref. Para A105)

Other Information

46. When documents containing the subject matter information and the assurance report thereon include other information, the practitioner shall read that other information to identify material inconsistencies, if any, with the subject matter information and, if on reading that other information, the practitioner:
- (a) Identifies a material inconsistency between that other information and the subject matter information, or
 - (b) Becomes aware of a material misstatement of fact in that other information that is unrelated to matters appearing in the subject matter information,
- the practitioner shall discuss the matter with the entity and take further action as appropriate.

Forming the Assurance Opinion

47. The practitioner shall form a conclusion or conclusions with the desired level of assurance (reasonable or limited) about the evaluation or measurement of the underlying subject matter against the applicable criteria.
48. In order to form that conclusion, the practitioner shall conclude as to whether the practitioner has obtained sufficient appropriate engagement evidence about whether the reported outcome of the measurement or evaluation of the underlying subject matter (i.e., the subject matter information) is free from material misstatement. That conclusion shall include: (Ref: Para. A107–A108)
- (a) Consideration of all relevant engagement evidence, regardless of whether it appears to corroborate or to contradict the evaluation or measurement of the underlying subject matter against the applicable criteria.
 - (b) An evaluation of whether the subject matter information adequately refers to or describes the applicable criteria. (Ref: Para. A109–A111)
49. If the practitioner has not obtained sufficient appropriate evidence as to a material matter, the practitioner shall attempt to obtain further evidence. If the practitioner is unable to obtain sufficient appropriate evidence, the practitioner shall express a qualified conclusion or disclaim a conclusion on the subject matter information.

Preparing the Assurance Report

50. The assurance report shall be in writing and shall contain a clear expression of the practitioner's conclusion that conveys the assurance obtained about the subject matter information.

Assurance Report Content

51. The assurance report shall include the following basic elements: (Ref: Para. A112)

- (a) A title that clearly indicates the report is an independent assurance report.
- (b) An addressee.
- (c) An identification and description of the subject matter information and, when appropriate, the underlying subject matter

When the practitioner's conclusion is worded in terms of a statement made by the measurer or evaluator, that statement shall be 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.
- (e) Where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the underlying subject matter against the criteria.
- (f) When the criteria used to evaluate or measure the underlying subject matter are relevant only to a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose.
- (g) A statement to identify the entity and to describe the entity's and the practitioner's responsibilities
- (h) A statement that the engagement was performed in accordance with this ISAE or, where there is a subject matter specific ISAE, that ISAE.
- (i) A statement that:
 - (i) The firm of which the practitioner is a member applies ISQC 1; or
 - (ii) Cites the professional requirements, or requirements imposed by law or regulation with respect to quality control that the firm of which the practitioner is a member applies, and states that, in the practitioner's professional judgment, those requirements are at least as demanding as the ISQC 1.
- (j) A statement that:
 - (i) The practitioner complies with the IESBA Code; or
 - (ii) Cites the professional requirements, or requirements imposed by law or regulation with respect to independence and other ethical matters with which the practitioner complies, and states that, in the practitioner's professional judgment, those requirements are at least as demanding as the IESBA Code.
- (k) A summary of the work performed as the basis for the practitioner's conclusion. In a limited assurance engagement the summary of the work performed shall:
 - Be sufficient for the intended users to understand the level of assurance obtained.
 - State 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.

- (l) The practitioner's conclusion:
- Where appropriate, the conclusion shall inform the intended users of the context in which the practitioner's conclusion is to be read:
 - In a reasonable assurance engagement, the conclusion shall be expressed in the positive form.
 - In a limited assurance engagement, the conclusion shall be expressed in the negative form.
 - Where the practitioner expresses a modified conclusion, the assurance report shall contain a clear description of all the reasons.
- (m) The assurance report date. The assurance report shall be dated no earlier than the date on which the practitioner has obtained sufficient appropriate evidence on which to base the practitioner's conclusion on the subject matter information, including where appropriate, evidence that those with the recognized authority have asserted that they have taken responsibility for the subject matter information.
- (n) 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

Reference to the Practitioner's Expert in the Assurance Report

52. If the practitioner refers to the work of a practitioner's expert in the assurance report, the wording of that report shall not imply that the practitioner's responsibility for the conclusion expressed in that report is reduced because of the involvement of that expert. (Ref: Para. A113–115)

Findings and Recommendations

53. The practitioner's conclusion on the subject matter information shall be clearly separated from any findings, recommendations or similar information included in the assurance report, and the wording used shall make it clear that findings, recommendations or similar information is not intended to affect the practitioner's conclusion. (Ref: Para. A116–A118)

Form of Conclusion

54. The practitioner shall express an unmodified conclusion when the practitioner concludes, in the case of a reasonable assurance engagement, that the subject matter information is prepared, in all material respects, in accordance with the applicable criteria, or, in the case of a limited assurance engagement, that nothing has come to the attention of the practitioner that causes the practitioner to believe that the subject matter information is not prepared, in all material respects, in accordance with the applicable criteria.
55. The practitioner shall not express an unmodified conclusion when the following circumstances exist and, in the practitioner's judgment, the effect of the matter is or may be material:

- (a) There is a limitation on the scope of the practitioner's work, that is, circumstances prevent, or the entity or another party to the engagement imposes a restriction that prevents the practitioner from obtaining engagement evidence required to reduce engagement risk to the appropriate level. The practitioner shall express a qualified conclusion or a disclaimer of conclusion;
- (b) In those cases where:
- The practitioner's conclusion is worded in terms of a statement made by the measurer or evaluator, and that statement is incorrect, in a material respect; or
 - The practitioner's conclusion is worded in terms of the underlying subject matter and the criteria, and the subject matter information is not free from material misstatement,⁶
- the practitioner shall express a qualified or adverse conclusion; or
- 56 When it is discovered, after the engagement has been accepted, that the criteria are unsuitable or the underlying subject matter is not appropriate for an assurance engagement, the practitioner shall discuss the matter with the entity and, depending on how it is resolved, shall determine how to communicate it in the practitioner's report.
57. The practitioner shall express a qualified conclusion when the effects, or possible effects, of a matter is not so material or pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion is expressed as being "except for" the effects, or possible effects, of the matter to which the qualification relates.
58. In those cases where the practitioner's unqualified conclusion would be worded in terms of a statement made by the measurer or evaluator, and that statement has identified and properly described that the subject matter information is materially misstated, the practitioner shall either:
- Expresses a qualified or adverse conclusion worded in terms of the underlying subject matter and the criteria; or
 - If specifically required by the terms of the engagement to word the conclusion in terms of statement made by the measurer or evaluator, expresses an unqualified conclusion but emphasizes the matter by specifically referring to it in the assurance report.

Assurance Report Prescribed by Law or Regulation

59. If the practitioner is required by law or regulation to use a specific layout or wording of the assurance report, the assurance report shall refer to this or other ISAEs only if the assurance report includes, at a minimum, each of the elements identified in paragraph 51.

⁶ In those direct assurance 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).

Other Communication Responsibilities

60. The practitioner shall consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matters that have come to the attention of the practitioner should be communicated with management or those charged with governance of the entity, another party to the engagement, or others. (Ref: Para. A119)

Documentation

61. The practitioner shall prepare on a timely basis engagement documentation that provides a record of the basis for the practitioner's report that is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand:
- (a) The nature, timing and extent of the procedures performed to comply with the ISAEs and applicable legal and regulatory requirements;
 - (b) The results of the procedures performed, and the engagement evidence obtained; and
 - (c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions; and
62. If the practitioner identified information that is inconsistent with the practitioner's final conclusion regarding a significant matter, the practitioner shall document how the practitioner addressed the inconsistency. (Ref: Para. A120–A126)

Application and Other Explanatory Material

Definitions

Reasonable Assurance Engagements and Limited Assurance Engagements (Ref: Para. 7(a)(i))

- A1 In assurance engagements under the ISAEs, a practitioner obtains one of two levels of assurance: reasonable assurance or limited assurance. The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner's conclusion. 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.
- A2 In a limited assurance engagement, the practitioner reduces engagement risk to a level that provides a meaningful conclusion but, due to the limited procedures performed and limited engagement evidence obtained, it is greater than the level of risk for a reasonable assurance engagement. The nature of the procedures to be performed or the level of assurance expected to be obtained in a particular type of limited assurance engagement may be more specifically defined in a subject matter-specific ISAE or in the terms of the engagement.

Attestation Engagements and Direct Engagements (Ref: Para. 7(a)(ii) and Appendix 2))

- A3. In an attestation engagement, the measurer or evaluator, who is not the practitioner, measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information. Subject matter information can fail to be properly expressed in the context of the underlying subject matter and the criteria, and can therefore be misstated, potentially to a material extent. The role of the practitioner in an attestation engagement is to obtain sufficient appropriate engagement evidence in order to express a conclusion about whether the subject matter information, as prepared by the measurer or evaluator, is free from material misstatement.
- A4. In a direct engagement, the practitioner evaluates or measures the underlying subject matter against the criteria, the outcome of which is the subject matter information. Depending on the underlying subject matter, the outcome of the evaluation or measurement in a direct engagement may be similar to a report or statement prepared by the measurer or evaluator in an attestation engagement. In other circumstances, however, the outcome may be reflected in the description of the findings and basis for the practitioner's conclusion in a long-form practitioner's report. The role of the practitioner in a direct engagement is to obtain sufficient appropriate engagement evidence in order to conclude that the subject matter information, as prepared by the practitioner, does not materially misstate the outcome of the evaluation or measurement of the subject matter against the criteria.
- A5. In the ISAEs, the potential for the subject matter information, as prepared, to be different from that required for it to be in accordance with the applicable criteria is known as the risk of material misstatement for both attestation engagements and direct engagements.

The Source of Assurance in a Direct Engagement (Ref: Para. 7(a)(ii) and Appendix 2)

- A6 In direct engagements, the gathering of evidence for the purpose of forming an assurance conclusion is often done simultaneously with the measurement or evaluation of the subject matter. So, rather than the source of assurance coming about through independent review of an evaluation/measurement that another party has performed, as is the case in an attestation engagements, the value of a direct engagement lies in the combination of:
- (a) The independence of the practitioner from the subject matter, the engaging party, intended users and the managing party. The practitioner is not independent of the subject matter information because the practitioner created that subject matter information, and
 - (b) The assurance skills and techniques applied when measuring or evaluating the subject matter, which results in the accumulation of evidence that is of a similar quantity and quality as for an attestation engagement. It is this gathering of sufficient appropriate evidence that distinguishes a direct assurance engagement from a mere compilation. To illustrate this point, if a practitioner were compiling an entity's financial statements, the practitioner would not, for example, observe physical inventory counts. In a direct assurance engagement, however, the practitioner would observe physical inventory counts (assuming it is appropriate to do so) in the same way as if the engagement were an attestation engagement.

Criteria (Ref: Para. 7(c) and Appendix 2)

- A7 Suitable criteria are required for reasonably consistent evaluation or measurement of an underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. The suitability of criteria is context-sensitive, that is, it is determined in the context of the engagement circumstances. Even for the same underlying subject matter there can be different criteria, which will yield a different evaluation or measurement. For example, one responsible party might select the number of customer complaints resolved to the acknowledged satisfaction of the customer for the underlying subject matter of customer satisfaction; another responsible party might select the number of repeat purchases in the three months following the initial purchase. The suitability of criteria is not affected by the level of assurance to be obtained in the engagement, i.e., if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa.

The Entity (Ref: Para. 7(g) and Appendix 2)

- A8 The roles played by various parties to an assurance engagement can vary (see paragraph A30). Also, management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible for ISAEs to specify for all engagements the person(s) with whom the practitioner is to inquire of, request representations from, or otherwise communicate with in all circumstances. In some cases, for example, when the entity is only part of a complete legal entity, identifying the appropriate management personnel or those charged with governance with whom to communicate will require the exercise of professional judgment to determine which person(s) have the appropriate responsibilities for and knowledge of the matters concerned.

Intended Users (Ref: Para. 8(h) and Appendix 2)

- A9 In some cases there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly where a large number of people have access to it. In such cases, particularly where possible readers are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law.
- A10 Whenever practical, intended users or their representatives are involved with the practitioner and the responsible party (and the engaging party if different) in determining the requirements of the engagement. Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting findings based upon the procedures, rather than a conclusion):
- (a) The practitioner is responsible for determining the nature, timing and extent of procedures; and

- (b) The practitioner is required to pursue any matter the practitioner becomes aware of that leads the practitioner to question whether a material modification should be made to the subject matter information.

A11 In some cases, intended users (for example, bankers and regulators) impose a requirement on, or request the entity (or the engaging party if different) to arrange for an assurance engagement to be performed for a specific purpose. When engagements are designed for specified intended users or a specific purpose, paragraph 51(f) requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the practitioner's report (see paragraph A112(f)).

Subject Matter Information (Ref: Para. 7(l) and Appendix 2)

A12 In some cases, the subject matter information may be a statement that evaluates an aspect of a process, or of performance or compliance, in relation to the criteria. For example, "ABC's internal control operated effectively in terms of XYZ criteria during the period ..." or "ABC's governance structure conformed with XYZ criteria during the period ...".

Conduct of an Assurance Engagement in Accordance with ISAEs

Complying with Standards that are Relevant to the Engagement (Ref: Para. 1 and 8–9)

A13. This ISAE includes requirements that apply to all assurance engagements (other than audits or reviews of historical financial information), including engagements in accordance with a subject matter-specific ISAE. In some cases, a subject matter-specific ISAE is also relevant to the engagement. A subject matter-specific ISAE is relevant to the engagement when the ISAE is in effect, the subject matter of the ISAE is relevant to the engagement, and the circumstances addressed by the ISAE exist.

A14. The ISAs and ISREs have not been written for assurance engagements on subject matter information other than historical financial information, and do not apply to such engagements unless:

- (a) The subject matter information includes both historical financial information and other information, neither of which is merely incidental to the overall engagement. For example, the subject matter information in a public sector assurance engagement may be cost per job created, in which case neither the historical financial information (cost) nor the other information (number of jobs created) is merely incidental; or
- (b) The engagement is not an audit or review. For example, a direct engagement on historical financial information.

A15. In such cases:

- (a) The engagement is to be conducted in accordance with the ISAEs; and

- (b) The ISAs, or ISREs in the case of a limited assurance engagement, are to be applied, adapted as necessary in the circumstances, to evidence-gathering procedures regarding the historical financial information.

In other cases, the ISAs or ISREs may provide some guidance to practitioners in relation to the assurance process generally.

Text of an ISAE (Ref: Para. 10)

- A16. ISAEs contain the objectives of the practitioner in following the ISAEs, and requirements designed to enable the firm to meet those objectives. In addition, they contain related guidance in the form of application and other explanatory material, introductory material that provides context relevant to a proper understanding of the ISQC, and definitions.
- A17. The requirements of ISAEs are expressed using “shall.”
- A18. Where necessary, the application and other explanatory material provides further explanation of the requirements and guidance for carrying them out. In particular, it may:
- (a) Explain more precisely what a requirement means or is intended to cover; and
 - (b) Include examples that may be appropriate in the circumstances.

While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements. The application and other explanatory material may also provide background information on matters addressed in an ISAE. Where appropriate, additional considerations specific to public sector audit organizations or smaller firms are included within the application and other explanatory material. These additional considerations assist in the application of the requirements in the ISAEs. They do not, however, limit or reduce the responsibility of the practitioner to apply and comply with the requirements in an ISAE.

- A19. Definitions are provided in the ISAEs to assist in the consistent application and interpretation of the ISAEs, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise.

Quality Control, Competency, and Ethical Requirements

Professional Accountants in Public Practice (Ref: Para. 15(a) and A15(b) and 16)

- A20. This ISAE has been written in the context of a range of measures taken to ensure the quality of assurance engagements undertaken by professional accountants in public practice, such as those taken by IFAC member bodies in accordance with IFAC’s Member Body Compliance Program and Statements of Membership Obligations. Such measures include:
- Competency requirements, such as education and experience benchmarks for entry to membership, and ongoing continuing professional development/life-long learning requirements.
 - Quality control policies and procedures implemented across the firm. ISQC 1 applies to all firms of professional accountants in respect of assurance and related service engagements.

- A comprehensive Code of Ethics, including detailed independence requirements, founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Quality Control (Ref: Para. 15(a))

A21. ISQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for assurance engagements. It sets out the responsibilities of the firm for establishing policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements, including those pertaining to independence. Compliance with ISQC 1 requires, among other things, that the firm establish and maintain a system of quality control that includes policies and procedures addressing each of the following elements, and that it documents its policies and procedures and communicates them to the firm's personnel:

- (a) Leadership responsibilities for quality within the firm;
- (b) Relevant ethical requirements;
- (c) Acceptance and continuance of client relationships and specific engagements;
- (d) Human resources;
- (e) Engagement performance; and
- (f) Monitoring.

Professional requirements, or requirements imposed by law or regulation are at least as demanding as ISQC 1 when they address all the matters referred to in this paragraph and impose obligations on the firm that achieve the aims of the requirements set out in ISQC 1.

Specialist Knowledge and Experience in Assurance (Ref: Para. 15(b))

A22. As noted in International Education Standard (IES) 8, no one professional accountant can master all areas of accountancy. Specialization is necessary to ensure services can be provided by professional accountants having sufficient depth of knowledge and expertise.⁷ One area of specialization is assurance, which includes, but is broader than, financial statement auditing. Competence in assurance requires specialist knowledge and experience in assurance skills and techniques developed through extensive training and practical application. In many jurisdictions, regulators develop rules for registration that, along with IES 8, may provide useful benchmarks for assessing compliance with paragraph 15(b) of this ISAE in a particular jurisdiction. Such rules may involve, for example, demonstration of specific competencies, or a requirement to spend set periods of time on particular aspects of assurance engagements.

⁷ International Education Standard (IES) 8, "Competence Requirements for Audit Professionals."

Skills, Knowledge and Experience with respect to the Subject Matter (Ref: Para. 15(c))

- A23. 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.
- A23. The IESBA Code requires the professional accountant in public practice to agree to provide only those services that the professional accountant in public practice is competent to perform.⁸ The practitioner has sole responsibility for the assurance opinion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert. Nonetheless, if the practitioner using the work of a practitioner's expert, having followed this ISAE, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate engagement evidence.

Ethical Requirements Relating to Assurance Engagements (Ref: Para. 16)

- A24. Part A of the IESBA Code establishes the following fundamental principles with which the practitioner is required to comply:
- (a) Integrity;
 - (b) Objectivity;
 - (c) Professional competence and due care;
 - (d) Confidentiality; and
 - (e) Professional behavior.
- A25. Part A also provides a conceptual framework that professional accountants shall apply to:
- (a) Identify threats to compliance with the fundamental principles. Threats fall into one or more of the following categories:
 - (i) Self-interest;
 - (ii) Self-review;
 - (ii) Advocacy;
 - (iv) Familiarity; and
 - (v) Intimidation;
 - (b) Evaluate the significance of the threats identified; and
 - (c) Apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level. Safeguards are necessary when the professional accountant determines that the threats are not at a level at which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant at that time, that compliance with the fundamental principles is not compromised.

⁸ The IFAC Code, paragraph 210.6.

- A26. Part B of the IESBA Code describes how the conceptual framework in Part A applies in certain situations to professional accountants in public practice, including.
- Professional appointment.
 - Conflicts of interest.
 - Second opinions.
 - Fees and other types of remuneration.
 - Marketing professional services.
 - Gifts and hospitality.
 - Custody of client assets.
 - Objectivity.
 - Independence.
- A27. The IESBA Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.
- A28. Professional requirements, or requirements imposed by law or regulation are at least as demanding as the IESBA Code when they address all the matters referred to in paragraphs A24 to A28 and impose obligations that achieve the aims of the requirements set out in Parts A and B of the IESBA Code.

Acceptance and Continuance

Agreeing on the Terms of the Engagement (Ref: Para. 18)

- A29. It is in the interests of both the entity and the practitioner that the practitioner sends an engagement letter before the commencement of the engagement to help avoid misunderstandings with respect to the engagement. The form and content of the engagement letter or contract will vary with the engagement circumstances, for example, if law or regulation prescribes in sufficient detail the terms of the engagement, the practitioner need not record them in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities.

Preconditions for the Engagement

Roles and Responsibilities of the Parties to the Engagement (Ref: Para. 19(a) and Appendix 2)

- A30. All assurance engagements have at least three parties: the managing party, the practitioner, and the intended users. Depending on the engagement circumstances, the roles of measurer or evaluator and of the engaging party may also be performed by one of these parties or by another party(ies). See Appendix 2 for a discussion of how each of these roles relate to an assurance engagement.
- A31. Acknowledgement by the managing party provides engagement evidence that the appropriate relationship exists with respect to responsibility for the underlying

subject matter. It also establishes a basis for a common understanding of the responsibility of the managing party and the practitioner. A written acknowledgement is the most appropriate form of documenting the managing party's understanding. In the absence of an acknowledgement of responsibility, it may be appropriate for the practitioner to:

- (a) Refuse 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, to disclose these circumstances in the assurance report.

Appropriateness of the Underlying Subject Matter (Ref: Para. 19(b)(i))

A32. An appropriate underlying subject matter is:

- (a) Identifiable, and capable of consistent evaluation or measurement against the identified criteria; and
- (b) Such that the information about it can be subjected to procedures for gathering sufficient appropriate engagement evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.

A33. The appropriateness of an underlying subject matter is not affected by the level of assurance to be obtained in the engagement, i.e., if an underlying subject matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa.

A34. Different underlying subject matters have different characteristics, including the degree to which information about them is qualitative versus quantitative, objective versus subjective, historical versus prospective, and relates to a point in time or covers a period. Such characteristics affect the:

- (a) Precision with which the underlying subject matter can be evaluated or measured against criteria; and
- (b) The persuasiveness of available evidence.

A35. Identifying such characteristics and considering their effects assists the practitioner when assessing the appropriateness of the underlying subject matter, and also in determining the content of the assurance report (see paragraph A112(c)).

A36. In some cases, the assurance engagement may relate to only one part of a broader underlying subject matter. For example, the practitioner may be engaged to report on one aspect of an entity's contribution to sustainable development, such as a number of programs run by an entity that have positive environmental outcomes. In determining whether the engagement exhibits the characteristic of having an appropriate underlying subject matter in such cases, it may be appropriate for the practitioner to consider whether information about the aspect on which the practitioner is asked to report is likely to meet the information needs of intended users, and also how the subject matter information will be presented and distributed, for example, whether there are there more significant programs with less favorable outcomes that the entity is not reporting upon.

Suitability and availability of the Criteria (Ref: Para. 19(b)(ii))

Suitability of the Criteria

A37. Suitable criteria exhibit the following characteristics:

- (a) **Relevance:** relevant criteria result in subject matter information that assists decision-making by the intended users.
- (b) **Completeness:** criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could affect decisions of the intended users. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
- (c) **Reliability:** reliable criteria allow reasonably consistent evaluation or measurement of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.
- (d) **Neutrality:** neutral criteria result in subject matter information that is free from bias.
- (e) **Understandability:** understandable criteria result in subject matter information that can be understood by the intended users.

Vague descriptions of expectations or judgments or of an individual practitioner's experiences do not constitute suitable criteria.

A38. The practitioner assesses the suitability of criteria for a particular engagement by considering whether they reflect the above characteristics. The relative importance of each characteristic to a particular engagement is a matter of judgment.

A39. Criteria can be developed in a variety of ways, for example, they may be:

- Embodied in laws or regulations.
- Issued by authorized or recognized bodies of experts that follow a transparent due process.
- Developed collectively by a group that does not follow a transparent due process.
- Published in scholarly journals or books.
- Developed for sale on a proprietary basis.
- Specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement.

How criteria are developed may affect the work that the practitioner carries out to assess their suitability.

A40. In some cases, law or regulation prescribe the criteria to be used for the engagement. In the absence of indications to the contrary, such criteria are presumed to be acceptable, as are criteria issued by authorized or recognized bodies of experts that follow a transparent due process if they are relevant to the intended users' information needs. Such criteria are known as established criteria. Even 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 information 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) Alerts readers of the practitioner's report that the subject matter information is prepared in accordance with special purpose criteria and that, as a result, the subject matter information may not be suitable for another purpose.
- A41. Criteria are specifically designed for the purpose of preparing the subject matter information in the particular circumstances of the engagement, they are not suitable if they result in subject matter information or an assurance report that is misleading to the intended users. It is desirable for the intended users or the engaging party to acknowledge that specifically developed criteria are suitable for the intended users' purposes. The absence of such an acknowledgement may affect what is to be done to assess the suitability of the identified criteria, and the information provided about the criteria in the assurance report.

Availability of the Criteria

- A42. Criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been evaluated or measured. Criteria are made available to the intended users in one or more of the following ways:
- (a) Publicly.
 - (b) Through inclusion in a clear manner in the presentation of the subject matter information.
 - (c) Through inclusion in a clear manner in the assurance report.
 - (d) By general understanding, for example the criterion for measuring time in hours and minutes.
- A43. Criteria may also be available only to specific intended users, for example the terms of a contract, or criteria issued by an industry association that are available only to those in the industry because they are relevant only to a specific purpose. When this is the case, paragraph 51(f) requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users (see paragraph A112(f)).

Access to Engagement Evidence (Ref: Para. 19(b)(iii))

Quantity and Quality of Available Evidence

- A44. The quantity or quality of available evidence is affected by:
- (a) The characteristics of the underlying subject matter and subject matter information. For example, less objective evidence might be expected when

information about the underlying subject matter is future oriented rather than historical; and

- (b) Circumstances of the engagement other than the characteristics of the underlying subject matter, when evidence that could reasonably be expected to exist is not available because of, for example, the timing of the practitioner's appointment, an entity's document retention policy, inadequate information systems, or a restriction imposed by the responsible party.

Ordinarily, evidence will be persuasive rather than conclusive.

Access to Records

A45.2 Seeking the agreement of the entity that it acknowledges and understands its responsibility to provide the practitioner with the following may assist the practitioner in determining whether the engagement exhibits the characteristic of access to evidence:

- (a) Access to all information of which the entity is aware that is relevant to the preparation of the subject matter information such as records, documentation and other matters;
- (b) Additional information that the practitioner may request from the entity for the purpose of the engagement; and
- (c) Unrestricted access to persons within the entity from whom the practitioner determines it necessary to obtain engagement evidence.

A46. The entity is not the engaging party, this may affect access to records, documentation and other information the practitioner may require as engagement evidence to complete the engagement.

A Rational Purpose (Ref: Para. 19(b)(iv))

A47. Determining whether the engagement has a rational purpose, relevant considerations may include the following:

- The intended distribution of the subject matter information and the practitioner's report, for example, whether they are for a special purpose, and if so the likelihood that they will be used or distributed more broadly than to intended users.
- Whether elements of the subject matter information are excepted to be excluded from the assurance engagement, and the reason for their exclusion.
- The characteristics of the relationships between the parties to the engagement, for example, when the measurer or evaluator is not the managing party, whether the managing party consents to the use to be made of the subject matter information and will have the opportunity to review the subject matter information before it is made available to intended users or to distribute comment with the subject matter information, as may be the case in a public sector performance audit.
- Who selected the criteria to be applied to measure or evaluate the underlying subject matter, and the degree of judgment and scope for bias in applying

them. The engagement is more likely to have a rational purpose if the intended users selected or were involved in selecting the criteria.

Engagement acceptance and continuance procedures relevant to the team

Collective Competence and Capabilities (Ref: Para. 21(a))

- A48. ISQC 1 requires the firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm is competent to perform the engagement and has the capabilities, including time and resources, to do so.⁹

Practitioner's Expert (Ref: Para. 21(a) and 21(b)(i))

- A49. Some of the assurance work may be performed by a multi-disciplinary team that includes one or more practitioner's expert. In a reasonable assurance engagement, for example, a practitioner's expert may be needed to assist the practitioner in one or more of the matters mentioned in paragraph 37.
- A50. When the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 44 at the engagement acceptance or continuance stage.

Other Practitioners (Ref: Para.21(b)(ii))

- A51. The subject matter information may include information upon which another practitioner may have expressed a conclusion. The practitioner, in concluding on the subject matter information, may decide to use the engagement evidence on which that other practitioner's conclusion is based to provide engagement evidence regarding the subject matter information.

Acceptance of a Change in the Terms of the Engagement (Ref: Para. 22)

- A52. 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, for example, from an assurance engagement to a non-assurance engagement, or from a reasonable assurance engagement to a limited assurance engagement.

Engagement Level Quality Control

Review Responsibilities (Ref: Para. 24(d))

- A53 Under ISQC 1, the firm's review responsibility policies and procedures are determined on the basis that the work of less experienced team members is reviewed by more experienced team members.¹⁰

⁹ ISQC 1, paragraph 26.

¹⁰ ISQC 1, paragraph 33.

Engagement Quality Control Review (Ref: Para. 24(g))

- A54. The engagement quality control review comprises an objective evaluation by a control reviewer of the significant judgments made by the engagement team, and the conclusions reached in formulating the assurance report, including:
- (a) Discussion of significant matters with the engagement partner;
 - (b) Review of the subject matter information and the proposed assurance report;
 - (c) Review of selected engagement documentation relating to the significant judgments the engagement team made and the conclusions it reached;
 - (d) Evaluation of the conclusions reached in formulating the assurance report and consideration of whether the proposed assurance report is appropriate;
 - (e) Consideration of the engagement team's evaluation of the firm's independence in relation to the engagement;
 - (f) Consideration of whether appropriate consultation has taken place on matters involving differences of conclusion or other difficult or contentious matters, and the conclusions arising from those consultations; and
 - (g) Consideration of whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

Objectivity in a Direct Engagement (Ref: Par. 25)

- A55 In a direct engagement, the practitioner both measures or evaluates the underlying subject matter and gathers sufficient appropriate engagement evidence about that measurement or evaluation. Engagement level quality policies and procedures are particularly important in a direct engagement because of the threats to objectivity that this dual role can pose. Actions to eliminate such threats or reduce them to an acceptable level by applying safeguards may include:

- Having separate assurance personnel undertake these two roles.
- Increasing the level of direction, supervision and review, particularly of the assurance personnel undertaking the measurement or evaluation of the underlying subject matter.
- Undertaking an engagement quality control review.

If the threats to objectivity cannot be eliminated or reduced to an acceptable level by applying safeguards, it may be appropriate to withdraw from the engagement, where withdrawal is possible under applicable laws or regulations.

Professional Skepticism (Ref: Par. 27)

- A56 Professional skepticism, which applies equally to reasonable assurance and limited assurance engagements, includes being alert to, for example:
- Engagement evidence that contradicts other engagement evidence obtained.
 - Information that brings into question the reliability of documents and responses to inquiries to be used as engagement evidence.

- Circumstances that suggest the need for engagement evidence-gathering procedures in addition to those required by the ISAEs.
- A57 Maintaining professional skepticism throughout the engagement is necessary if the practitioner is, for example, to reduce the risks of:
- Overlooking unusual circumstances.
 - Over generalizing when drawing conclusions from observations.
 - Using inappropriate assumptions in determining the nature, timing, and extent of the procedures and evaluating the results thereof.
- A58 Professional skepticism is necessary to the critical assessment of engagement evidence. This includes questioning contradictory engagement evidence and the reliability of documents and responses to inquiries and other information obtained. It also includes consideration of the sufficiency and appropriateness of engagement evidence obtained in the light of the circumstances.
- A59 Unless the engagement involves assurance about the genuineness of documents, the practitioner may accept records and documents as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner is required by paragraph 35 to consider the reliability of information to be used as engagement evidence.
- A60 The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide engagement evidence. Nevertheless, a belief that those who provide engagement evidence are honest and have integrity does not relieve the practitioner of the need to maintain

Professional Judgment (Ref: Par. 28)

- A61 Professional judgment is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and the ISAEs and the informed decisions required throughout the engagement cannot be made without the application of relevant knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:
- Materiality and engagement risk.
 - The nature, timing, and extent of procedures used to meet the requirements of the ISAEs and gather engagement evidence.
 - Evaluating whether sufficient appropriate engagement evidence has been obtained, and whether more needs to be done to achieve the overall objectives of ISAE 3000 and any relevant subject matter-specific ISAE.
 - The making of judgments when applying the criteria to the subject matter in the case of a direct assurance engagement, or the evaluation of such judgments made by others in the case of an attestation assurance engagement.
 - The drawing of conclusions based on the engagement evidence obtained.

- A62 The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.
- A63 The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm assist the practitioner in making informed and reasonable judgments.
- A64 Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and evaluation/measurement principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner's assurance report.
- A65 Professional judgment needs to be exercised throughout the engagement. It also needs to be appropriately documented. In this regard, paragraph 61 the practitioner is required to prepare documentation sufficient to enable an experienced practitioner, having no previous connection with the engagement, to understand the significant professional judgments made in reaching conclusions on significant matters arising during the engagement. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate engagement evidence.

Planning and Performing the Engagement

Planning (Ref: Para. 29–30)

- A66. Planning involves the engagement partner, other key members of the engagement team, and any key practitioner's external experts 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 managing party and the practitioner's previous experience with it. Examples of the main matters to be considered include:
- The characteristics of the engagement that define its scope, including the terms of the engagement and the characteristics of the underlying subject matter and the identified criteria.
 - The reporting objectives of the engagement and the expected timing and the nature of the communications required;

- The results of preliminary engagement activities and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant
- The engagement process and possible sources of engagement evidence.
- The practitioner's understanding of the parties to the engagement and their environment, including the risks that the subject matter information may be materially misstated.
- Identification of intended users and their information needs, and consideration of materiality and the components of engagement risk.
- The nature, timing and extent of resources necessary to perform the engagement, such as personnel and expertise requirements, including the nature and extent of experts' involvement.
- The impact of the internal audit function on the engagement.

- A67 The practitioner may decide to discuss elements of planning with the entity to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned evidence-gathering procedures with the work of the entity's personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the practitioner's responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is required in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the entity may compromise the effectiveness of the engagement by making the procedures too predictable.
- A68. 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 engagement 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.
- A69 In smaller or less complex engagements, the entire engagement may be conducted by a very small engagement team, possibly involving the engagement partner (who may be a sole practitioner) working without any other engagement team members. With a smaller team, co-ordination of, and communication between, team members are easier. Establishing the overall engagement strategy for in such cases need not be a complex or time-consuming exercise; it varies according to the size of the entity, the complexity of the engagement, and the size of the engagement team. For example, in the case of a recurring engagement, a brief memorandum prepared at the completion of the previous period, based on a review of the working papers and highlighting issues identified in the engagement just completed, updated in the current period based on discussions with the owner-manager, can serve as the documented engagement strategy for the current engagement.

Materiality (Ref: Para. 31–32)

- A70. Materiality is relevant when the practitioner determines the nature, timing and extent of evidence-gathering procedures, and when assessing whether the subject matter information is free from misstatement. Considering materiality involves understanding and assessing what factors might influence the decisions of the intended users. For example, when the applicable criteria allow for variations in the presentation of the subject matter information, it is relevant to consider 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 underlying subject matter, and the information needs 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.
- A71. The criteria may discuss the concept of materiality in the context of the preparation and presentation of the subject matter information. Although criteria may discuss materiality in different terms, the concept of materiality generally includes that:
- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the subject matter information;
 - Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
 - Judgments about matters that are material to intended users of the subject matter information are based on a consideration of the common information needs of intended users as a group. The possible effect of misstatements on specific individual users, whose information s may vary widely, is not ordinarily considered.¹¹
- A72. Such a discussion, if present in the applicable criteria, provides a frame of reference to the practitioner in determining materiality for the engagement. If the applicable criteria do not include a discussion of the concept of materiality, the characteristics referred to above provide the practitioner with such a frame of reference.
- A73. The practitioner's determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:¹²

¹¹ As noted in paragraph 28 of the International Framework for Assurance Engagements “Whenever practical, the assurance report is addressed to all the intended users, but in some cases there may be other intended users. The practitioner may not be able to identify all those who will read the assurance report, particularly where there is a large number of people who have access to it. In such cases, particularly where possible readers are likely to have a broad range of interests in the subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law.”

¹² See paragraph 28 of the International Framework for Assurance Engagements, cited in the preceding footnote.

- (a) Have a reasonable knowledge of the subject matter, and a willingness to study the subject matter information with reasonable diligence;
 - (b) Understand that the subject matter information is prepared and assured to levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;
 - (c) Understand any inherent uncertainties involved in the in the measuring or evaluating the underlying subject matter; and
 - (d) Make reasonable decisions on the basis of the subject matter information.
- A74. Judgments about materiality are made in light of surrounding circumstances, and are affected by both quantitative and qualitative factors. It should be noted, however, that decisions regarding materiality are not affected by the desired level of assurance, i.e., materiality for a reasonable assurance engagement is the same as for a limited assurance engagement.
- A75. Materiality relates to the information covered by the practitioner assurance report. Therefore, when the engagement covers some, but not all aspects of the subject matter information, materiality is set in relation to only that portion of the subject matter information that is covered by the engagement.

Engagement Risk (Ref: Para. 33)

- A76. In a reasonable assurance engagement, assurance engagement risk is reduced 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 by the practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.
- A78. 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 of material misstatement, which in turn consists of:
 - (i) Inherent risk; and
 - (ii) Control risk; and
 - (b) Detection risk.

The degree to which the practitioner considers each of these components is affected by the engagement circumstances, in particular by the nature of the underlying subject matter and whether a reasonable assurance or a limited assurance

engagement is being performed. The consideration of risks is a matter of professional judgment, rather than a matter capable of precise measurement.

Obtaining Engagement Evidence

Understanding of the Engagement Circumstances (Ref: Para. 34–35)

A79. Obtaining an understanding of the underlying subject matter provides the practitioner with a frame of reference for exercising professional judgment throughout the engagement, for example when:

- Considering the characteristics of the underlying subject matter;
- Assessing the suitability of criteria;
- Considering the factors that, in the practitioner's professional judgment, are significant in directing the engagement team's efforts, including where special consideration may be necessary; for example, 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 engagement risk to an appropriate level; and
- Evaluating engagement evidence, including the reasonableness of the oral and written representations received by the practitioner.

A80. The practitioner ordinarily has a lesser depth of understanding than the managing party.

Sufficiency and Appropriateness of Engagement Evidence (Ref: Para. 36)

A81. Engagement evidence is necessary to support the practitioner's conclusion and assurance report. It is cumulative in nature and is primarily obtained from evidence-gathering procedures performed during the course of the engagement. It may, however, also include information obtained from other sources such as previous engagements (provided the practitioner has determined whether changes have occurred since the previous engagement that may affect its relevance to the current engagement) or a firm's quality control procedures for client acceptance and continuance. Engagement evidence may come from sources inside and outside the entity. Also, information that may be used as engagement evidence may have been prepared by an expert employed or engaged by the entity. Engagement evidence comprises both information that supports and corroborates aspects of the subject matter information, and any information that contradicts aspects of the subject matter information. In addition, in some cases, the absence of information (for example, refusal by the entity to provide a requested representation) is used by the practitioner, and therefore, also constitutes engagement evidence. Most of the practitioner's work in forming the assurance conclusion consists of obtaining and evaluating engagement evidence.

- A82. The sufficiency and appropriateness of engagement evidence are interrelated. Sufficiency is the measure of the quantity of engagement evidence. The quantity of engagement evidence needed is affected by the risks of the subject matter information being materially misstatement (the higher the risks, the more engagement evidence is likely to be required) and also by the quality of such engagement evidence (the higher the quality, the less may be required). Obtaining more engagement evidence, however, may not compensate for its poor quality.
- A83. Appropriateness is the measure of the quality of engagement evidence; that is, its relevance and its reliability in providing support for the conclusions on which the practitioner's conclusion is based. The reliability of engagement 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. Even when evidence is obtained from sources external to the entity, circumstances may exist that could affect the reliability of the information obtained. 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 outside the entity.
 - Evidence that is generated internally is more reliable when the related controls are effective.
 - Evidence obtained directly by the practitioner (for example, observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
 - Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, 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.
- A84. The practitioner ordinarily obtains more assurance from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining evidence from different sources or of a different nature may indicate that an individual item of evidence is not reliable. For example, corroborating information obtained from a source independent of the entity may increase the assurance the practitioner obtains from a representation from the entity. 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.
- A85. In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance about subject matter information covering a period than about subject matter information at a point in time. In addition, conclusions provided on

processes ordinarily are limited to the period covered by the engagement; the practitioner provides no conclusion about whether the process will continue to function in the specified manner in the future.

- A86. Whether sufficient appropriate engagement evidence has been obtained to reduce engagement risk to an acceptably low level, and thereby enable the practitioner to draw reasonable conclusions on which to base the practitioner's conclusion, is a matter of professional judgment.

The Nature, Timing and Extent of Evidence-gathering Procedures (Ref: Para. 36)

- A87. The exact nature, timing and extent of evidence-gathering procedures will vary from one engagement to the next. In theory, infinite variations in evidence-gathering procedures are possible. In practice, however, these are difficult to communicate clearly and unambiguously. The practitioner attempts to communicate them clearly and unambiguously and uses the form appropriate to a reasonable assurance engagement or a limited assurance engagement.¹³

Written Representations (Ref: Para. 40–41)

- A88. Written confirmation of oral representations reduces the possibility of misunderstandings between the practitioner and the entity. Written representations are ordinarily requested from senior management or those charged with governance of the entity about the evaluation or measurement of the underlying subject matter against the applicable criteria (for an attestation engagement) or to acknowledge responsibility for the underlying subject matter (in a direct engagement). Other written representation requested may include the following:
- That the entity has provided the practitioner with all relevant information and access as agreed in the terms of the engagement and reflected all relevant matters in the subject matter information;
 - Whether the entity believes the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the subject matter information. A summary of such items shall be included in or attached to the written representation;
 - That significant assumptions used in making any material estimates are reasonable; and
 - That the entity has communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial and inconsequential of which the entity is aware.
- A89. Representations by the entity cannot replace other engagement evidence the practitioner could reasonably expect to be available.

¹³ 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.

Considerations when a Practitioner's Expert is involved on the Engagement

Nature, Timing and Extent of Evidence-Gathering Procedures (Ref: Para. 43)

- A90. The following matters are often relevant when determining the nature, timing and extent of those procedures with respect to a practitioner's expert
- (a) The significance of that expert's work in the context of the engagement (see paragraphs A91–A92);
 - (b) The nature of the matter to which that expert's work relates;
 - (c) The risks of material misstatement in the matter to which that expert's work relates;
 - (d) The practitioner's knowledge of and experience with previous work performed by that expert; and
 - (e) Whether that expert is subject to the practitioner's firm's quality control policies and procedures (see paragraphs A93–A94).

Integrating the Work of a Practitioner's Expert

- A91. Assurance engagements may be performed on a wide range of underlying subject matters that require specialized skills and knowledge beyond those possessed by the practitioner and for which the work of a practitioner's expert is used. In some situations the practitioner's expert will be consulted to provide advice on an individual matter, but the greater the significance of the practitioner's expert's work in the context of the engagement, the more likely it is that expert will work as part of a multi-disciplinary team comparing subject matter experts and other assurance personnel. The more that expert's work is integrated in nature, timing and extent with the overall work effort, the more important is effective two-way communication between the practitioner's expert and other assurance personnel. Effective two-way communication facilitates the proper integration of the expert's work with the work of others on the engagement.
- A92. As noted at paragraph A50, when the work of a practitioner's expert is to be used, it may be appropriate to perform some of the procedures required by paragraph 44 at the engagement acceptance or continuance stage. This is particularly so when the work of the practitioner's expert will be fully integrated with the work of other assurance personnel and when the work of the practitioner's expert is to be used in the early stages of the engagement, for example during initial planning and risk assessment.

Practitioner's Internal Experts

- A93. A practitioner's internal expert may be a partner or staff, including temporary staff, of the practitioner's firm, and therefore subject to the quality control policies and procedures of that firm in accordance with ISQC 1 or national requirements that are at least as demanding. Alternatively, a practitioner's internal expert may be a partner or staff, including temporary staff, of a network firm, which may share common quality control policies and procedures with the practitioner's firm. A practitioner's

external expert is not a member of the engagement team and is not subject to quality control policies and procedures in accordance with ISQC 1.

A94. Engagement teams are entitled to rely on the firm's system of quality control, unless information provided by the firm or other parties suggests otherwise. The extent of that reliance will vary with the circumstances, and may affect the nature, timing and extent of the practitioner's procedures with respect to such matters as:

- Competence and capabilities, through recruitment and training programs.
- The practitioner's evaluation of the objectivity of the practitioner's expert. Practitioner's internal experts are subject to relevant ethical requirements, including those pertaining to independence.
- The practitioner's evaluation of the adequacy of the practitioner's expert's work. For example, the firm's training programs may provide the practitioner's internal experts with an appropriate understanding of the interrelationship of their expertise with the evidence-gathering process. Reliance on such training and other firm processes, such as protocols for scoping the work of the practitioner's internal experts, may affect the nature, timing and extent of the practitioner's procedures to evaluate the adequacy of the practitioner's expert's work.
- Adherence to regulatory and legal requirements, through monitoring processes.
- Agreement with the practitioner's expert.

Such reliance does not reduce the practitioner's responsibility to meet the requirements of this ISAE.

The Competence, Capabilities and Objectivity of the Practitioner's Expert (Ref: Para. 44(a))

A95. Information regarding the competence, capabilities and objectivity of a practitioner's expert may come from a variety of sources, such as:

- Personal experience with previous work of that expert.
- Discussions with that expert.
- Discussions with other practitioners or others who are familiar with that expert's work.
- Knowledge of that expert's qualifications, membership of a professional body or industry association, license to practice, or other forms of external recognition.
- Published papers or books written by that expert.
- The firm's quality control policies and procedures (see paragraphs A93–A94).

A96. While practitioner's experts do not require the same proficiency as the practitioner in performing all aspects of an assurance engagement, a practitioner's experts whose work is used may need a sufficient understanding of the ISAEs to enable that expert to relate the work assigned to them to the engagement objective.

A97. The evaluation of the significance of threats to objectivity and of whether there is a need for safeguards may depend upon the role of the practitioner's expert and the

significance of the expert's work in the context of the engagement. There may be some circumstances in which safeguards cannot reduce threats to an acceptable level, for example, if in an attestation engagement a proposed practitioner's expert is an individual who has played a significant role in preparing the subject matter information.

A98. When evaluating the objectivity of a practitioner's external expert, it may be relevant to:

- Inquire of the entity about any known interests or relationships that the entity has with the practitioner's external expert that may affect that expert's objectivity.
- Discuss with that expert any applicable safeguards, including any professional requirements that apply to that expert; and evaluate whether the safeguards are adequate to reduce threats to an acceptable level. Interests and relationships that it may be relevant to discuss with the practitioner's expert include:
 - Financial interests.
 - Business and personal relationships.
 - Provision of other services by the expert, including by the organization in the case of an external expert that is an organization.

In some cases, it may also be appropriate for the practitioner to obtain a written representation from the practitioner's external expert about any interests or relationships with the entity of which that expert is aware.

Obtaining an Understanding of the Field of Expertise of the Practitioner's Expert (Ref: Para. 44(b))

A99 Having a sufficient understanding of the field of expertise of the practitioner's expert enables the practitioner to:

- (a) Agree with the practitioner's expert the nature, scope and objectives of that expert's work for the practitioner's purposes; and
- (b) Evaluate the adequacy of that work for the practitioner's purposes.

A100 Aspects of the practitioner's expert's field relevant to the practitioner's understanding may include:

- Whether that expert's field has areas of specialty within it that are relevant to the engagement.
- Whether any professional or other standards, and regulatory or legal requirements apply.
- What assumptions and methods, including models where applicable, are used by the practitioner's expert, and whether they are generally accepted within that expert's field and appropriate in the circumstances of the engagement.
- The nature of internal and external data or information the practitioner's expert uses.

Agreement with the Practitioner's Expert (Ref: Para. 44(c))

- A101 It may be appropriate for the practitioner's agreement with the practitioner's expert to also include matters such as the following:
- (a) The respective roles and responsibilities of the practitioner and that expert;
 - (b) The nature, timing and extent of communication between the practitioner and that expert, including the form of any report to be provided by that expert; and
 - (c) The need for the practitioner's expert to observe confidentiality requirements.
- A102 The matters noted in paragraph A90 may affect the level of detail and formality of the agreement between the practitioner and the practitioner's expert, including whether it is appropriate that the agreement be in writing. The agreement between the practitioner and a practitioner's external expert is often in the form of an engagement letter.

Evaluating the Adequacy of the Practitioner's Expert's Work (Ref: Para. 44(d))

- A103. The following matters are ordinarily relevant when evaluating the adequacy of the practitioner's expert's work for the practitioner's purposes:
- (a) The relevance and reasonableness of that expert's findings or conclusions, and their consistency with other engagement evidence;
 - (b) If that expert's work involves use of significant assumptions and methods, the relevance and reasonableness of those assumptions and methods in the circumstances; and
 - (c) If that expert's work involves the use of source data that is significant to that expert's work, the relevance, completeness, and accuracy of that source data.
- A104 If the practitioner determines that the work of the practitioner's expert is not adequate for the practitioner's purposes, options available to the practitioner include:
- (a) Agreeing with that expert on the nature and extent of further work to be performed by that expert; or
 - (b) Performing additional assurance procedures appropriate to the circumstances.

Considering Subsequent Events (Ref: Para. 45)

- A105. Consideration of subsequent events in some assurance engagements may not be relevant because of the nature of the underlying 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.

Other Information (Ref: Para. 46)

- A106. Further actions that may be appropriate if the practitioner identifies a material inconsistency or becomes aware of a material misstatement of fact include, for example:

- Requesting the entity to consult with a qualified third party, such as the entity's legal counsel.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (e.g., a regulator).
- Withholding the assurance report.
- Withdrawing from the engagement.
- Describing the material inconsistency in the assurance report.

Forming the Assurance Opinion

Evaluating the Sufficiency and Appropriateness of Evidence (Ref: Para.48)

A107 An assurance engagement is a cumulative and iterative process. As the practitioner performs planned evidence-gathering procedures, the evidence obtained may cause the practitioner to change the nature, timing or extent of other planned procedures. Information may come to the practitioner's attention that differs significantly from that expected and upon which planned procedures were based. For example:

- The extent of misstatements that the practitioner prevents or detects may alter the practitioner's judgment about the reliability of particular sources of information.
- The practitioner may become aware of discrepancies in relevant information, or conflicting or missing evidence.
- Analytical procedures performed towards the end of the engagement may indicate a previously unrecognized risk of material misstatement.

In such circumstances, the practitioner may need to reevaluate the planned evidence-gathering procedures.

A108 The practitioner's judgment as to what constitutes sufficient appropriate evidence is influenced by such factors as the following:

- Significance of a potential misstatement and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the subject matter information.
- Effectiveness of the entity's responses to address the known risks.
- Experience gained during previous assurance engagements with respect to similar potential misstatements.
- Results of procedures performed, including whether such procedures identified specific misstatements.
- Source and reliability of the available information.
- Persuasiveness of the evidence.
- Understanding of the entity and its environment.

Description of the Applicable Criteria (Ref: Para.48(b))

- A109. The description of the applicable criteria advises intended users of the framework on which the subject matter information is based, and is particularly important when there are significant differences between various criteria regarding how particular matters may be treated in the subject matter information.
- A110. A description that the subject matter information is prepared in accordance with particular criteria is appropriate only if the subject matter information complies with all the requirements of those criteria that are effective.
- A111. A description of the applicable criteria that contains imprecise qualifying or limiting language (e.g., “the subject matter information is in substantial compliance with the requirements of XYZ”) is not an adequate description as it may mislead users of the subject matter information.

Preparing the Assurance Report

Assurance Report Content (Ref: Para. 51)

A112.

- (a) 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 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) Identification and description of the subject matter information and, when appropriate, the underlying subject matter includes for example:
 - The point in time or period of time to which the evaluation or measurement of the underlying subject matter relates;
 - Where applicable, the name of the entity or component of the entity to which the underlying subject matter relates; and
 - An explanation of those characteristics of the underlying 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 underlying subject matter against the identified criteria, or the persuasiveness of available engagement 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 underlying subject matter or other engagement circumstances that affect the comparability of the subject matter information from one period to the next.
- (d) The assurance report identifies the criteria against which the underlying 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 included in the subject matter information or if they are otherwise available from a readily accessible source. It may be 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 underlying 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) 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):
- (i) In some cases the subject matter information may be used for purposes other than those for which it was intended. For example, a regulator may require certain entities to place information prepared specifically for regulatory purposes on public record. To avoid misunderstandings, the practitioner alerts readers of the assurance report to this fact and that, therefore, the subject matter information may not be suitable for another purpose.
 - (ii) In addition to the alert required by paragraph 51(f), the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, for example, the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the practitioner's report.¹⁴
- (g) Identifying the entity and describing the entity's and the practitioner's responsibilities informs the intended users that the managing party is responsible for the underlying subject matter, and:

¹⁴ While an assurance report may be restricted in this way, 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.

- (i) In the case of a direct engagement that the practitioner's role is to independently measure or evaluate the underlying subject matter and express a conclusion about the subject matter information; or
 - (ii) In the case of an attestation engagement, that the measurer or evaluator is responsible for the subject matter information, and the practitioner's role is to independently express a conclusion about it.
- (h) Where a subject matter specific ISAE applies to only part of the subject matter information, it may be appropriate to cite both that subject matter specific ISAE and ISAE 3000.
- (i) The summary helps the intended users understand the nature of the assurance conveyed by the assurance report. ISA 700 the ISREs and subject matter-specific ISAEs provide a guide to the appropriate type of summary.

Where no specific ISAE provides guidance on evidence-gathering procedures for a particular underlying subject matter, the summary might include a more detailed description of the work performed. It may be appropriate to include in the summary a statement that the work performed included evaluating the suitability of the criteria.

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 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.

- (j) 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.

Where appropriate, the conclusion is required to 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 underlying subject matter of which the intended users should be aware.

In an attestation engagement, the practitioner's conclusion can be worded either in terms of the underlying subject matter and the criteria (an example of such a conclusion expressed in the positive form is: "In our opinion internal control is effective, in all material respects, based on XYZ criteria") or in terms of a statement made by the measurer or evaluator (an example of such a conclusion expressed in the positive form is: "In our opinion the measurer's or evaluator's statement that internal control is effective, in all material respects, based on XYZ

criteria, is fairly stated.”). In a direct engagement, the practitioner's conclusion is always worded in terms of the underlying subject matter and the criteria. The positive form of expression conveys “reasonable assurance.” Having performed evidence-gathering procedures of a nature, timing and extent that were reasonable given the characteristics of the underlying subject matter and other relevant engagement circumstances described in the assurance report, the practitioner has obtained sufficient appropriate evidence to reduce assurance engagement risk to an acceptably low level.

An example of a conclusion expressed in the negative form is: “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 measurer’s or evaluator’s statement that internal control is effective, in all material respects, based on XYZ criteria, is not fairly stated.” The negative form of expression conveys a level of “limited assurance” that is proportional to the level of the practitioner's evidence-gathering procedures given the characteristics of the underlying subject matter and other engagement circumstances described in the assurance report.

- (k) Including the assurance report date 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.
- (l) Including the name of the firm or the practitioner and a specific location informs the intended users of the individual or firm assuming responsibility for the engagement.

Reference to the Practitioner’s Expert in the Assurance Report (Ref: Para. 52)

- A113 In some cases, laws or regulations may require a reference to the work of a practitioner’s expert in the assurance report, for example, for the purposes of transparency in the public sector. It may also be appropriate in others circumstances, for example, to explain the nature of a modification of the practitioner’s conclusion, or when the work of an expert is integral to findings included in a long form report.
- A114 Nonetheless, the practitioner has sole responsibility for the conclusion expressed, and that responsibility is not reduced by the practitioner’s use of the work of a practitioner’s expert. It is important therefore that if the practitioner’s report refers to a practitioner’s expert, that the wording of that report does not imply that the practitioner’s responsibility for the conclusion expressed is reduced because of the involvement of that expert.
- A115 A generic reference in a long form report to the engagement having been conducted by suitably qualified personnel including subject matter experts and assurance specialist is unlikely to be misunderstood as reduced responsibility. The potential for misunderstanding is higher, however, in the case of short form reports, where minimum contextual information is able to be presented, or when the practitioner’s expert is referred to by name. Therefore, additional wording may be needed in such cases to prevent the practitioner’s report implying that the practitioner’s

responsibility for the conclusion expressed is reduced because of the involvement of the expert.

Form of Assurance Report (Ref: Para. 53)

- A116. 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.
- A117. This ISAE does not require a standardized format for reporting on all assurance engagements. Instead it identifies the basic elements the assurance report is to include. Assurance reports are tailored to the specific engagement circumstances. 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.
- A118. The practitioner may choose 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 include other information and explanations that are not intended to affect the practitioner's conclusion. As well as the basic elements, long-form reports may describe in detail the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. Whether to include any such information depends on its significance to the information needs of the intended users. As required by paragraph 53, additional information is clearly separated from the practitioner's conclusion and worded in such a manner so as not to affect that conclusion.

Other Communication Responsibilities (Ref: Para. 60)

- A119. Matters that may be appropriate to communicate with the entity, management or those charged with governance of the entity or another party to the engagement or others include fraud or suspected fraud, and in the case of an attestation engagement, bias in the preparation of the subject matter information.

Documentation (Ref: Para. 61–62)

- A120. 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.
- A121. 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.

A122. Documentation ordinarily includes a record of:

- (a) The identifying characteristics of the specific items or matters tested;
- (b) Who performed the engagement work and the date such work was completed; and
- (c) Who reviewed the engagement work performed and the date and extent of such review.
- (d) Discussions of significant matters with the entity and others, including the nature of the significant matters discussed and when and with whom the discussions took place.

Quality Control

A123. The practitioner shall include in the engagement documentation:

- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
- (b) Conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions.
- (c) Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements.
- (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

Assembly of the Final Engagement File

A124. ISQC 1 (or national requirements that are at least as demanding) requires firms to establish policies and procedures for the timely completion of the assembly of engagement files. An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.

A125. After the assembly of the final engagement file has been completed, engagement documentation of any nature is not deleted or discarded before the end of its retention period.

A126. If the practitioner finds it necessary to amend existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed, regardless of the nature of the amendments or additions, the documentation includes:

- (a) The specific reasons for making the amendments or additions; and
- (b) When and by whom they were made and reviewed.

Appendix 1

(Ref: Para. 7)

Adaptation of Terms from the Glossary of Terms

For purposes of this ISAE and other ISAEs, unless indicated to the contrary, the following terms, which are defined in the Handbook's Glossary of Terms, have the meanings attributed below. These definitions have been adapted as necessary for application to assurance engagements other than audits or reviews of historical financial information.

- (a) Detection risk – The risk that the procedures performed by the practitioner to reduce engagement risk to an acceptably low level will not detect a misstatement that exists and that could be material, either individually or when aggregated with other misstatements.
- (b) Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.¹⁵
- (c) Engagement evidence (or evidence) – Information used by the practitioner in arriving at the conclusions on which the practitioner's conclusion is based. Engagement evidence includes both information contained in relevant information systems, if any, and other information. For purposes of the ISAEs:
 - (i) Sufficiency of engagement evidence is the measure of the quantity of engagement evidence. The quantity of the engagement evidence needed is affected by the risks of material misstatement and also by the quality of such engagement evidence.
 - (ii) Appropriateness of engagement evidence is the measure of the quality of engagement evidence; that is, its relevance and its reliability in providing support for the conclusions on which the practitioner's conclusion is based.
- (d) Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner's external expert engaged by the firm or a network firm.
- (e) Historical financial information – Information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.
- (f) Firm – A sole practitioner, partnership or corporation or other entity of professional accountants or other practitioners.
- (g) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.

¹⁵ "Engagement partner," "partner," and "firm" should be read as referring to their public sector equivalents where relevant.

- (h) Inconsistency – Other information that contradicts an aspect of the subject matter information. A material inconsistency may raise doubt about the assurance conclusions drawn from engagement evidence previously obtained and, possibly, about the basis for the practitioner’s opinion on the subject matter information.
- (i) Misstatement – A difference between an aspect of the subject matter information as presented and the presentation of that aspect required to properly present the outcome of the measurement or evaluation of the subject matter against the applicable criteria. Misstatements can be intentional or unintentional, and include omissions.
- (j) Misstatement of fact – Other information that is unrelated to matters appearing in the subject matter information that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing subject matter information.
- (k) Other information –Information (other than the subject matter information and the practitioner’s report thereon) which is included, either by law, regulation or custom, in a document containing subject matter information and the practitioner’s report thereon.
- (l) Pervasive – A term used, in the context of misstatements, to describe the effects on the subject matter information of misstatements or the possible effects on the subject matter information of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate evidence. Pervasive effects on the subject matter information are those that, in the practitioner’s judgment:
 - (i) Are not confined to specific elements of the subject matter information;
 - (ii) If so confined, represent or could represent a substantial proportion of the subject matter information; or
 - (iii) In relation to disclosures, are fundamental to the intended users’ understanding of the subject matter information.
- (m) Practitioner’s expert – An individual or organization possessing expertise in a field other than accounting or assurance, whose work in that field is used by the practitioner to assist the practitioner in obtaining sufficient appropriate engagement evidence. A practitioner’s expert may be either a practitioner’s internal expert (who is a partner or staff, including temporary staff, of the practitioner’s firm or a network firm), or a practitioner’s external expert.
- (n) Professional accountant – An individual who is a member of an IFAC member body.
- (o) Professional accountant in public practice – A professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice.
- (p) Professional judgment – The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.

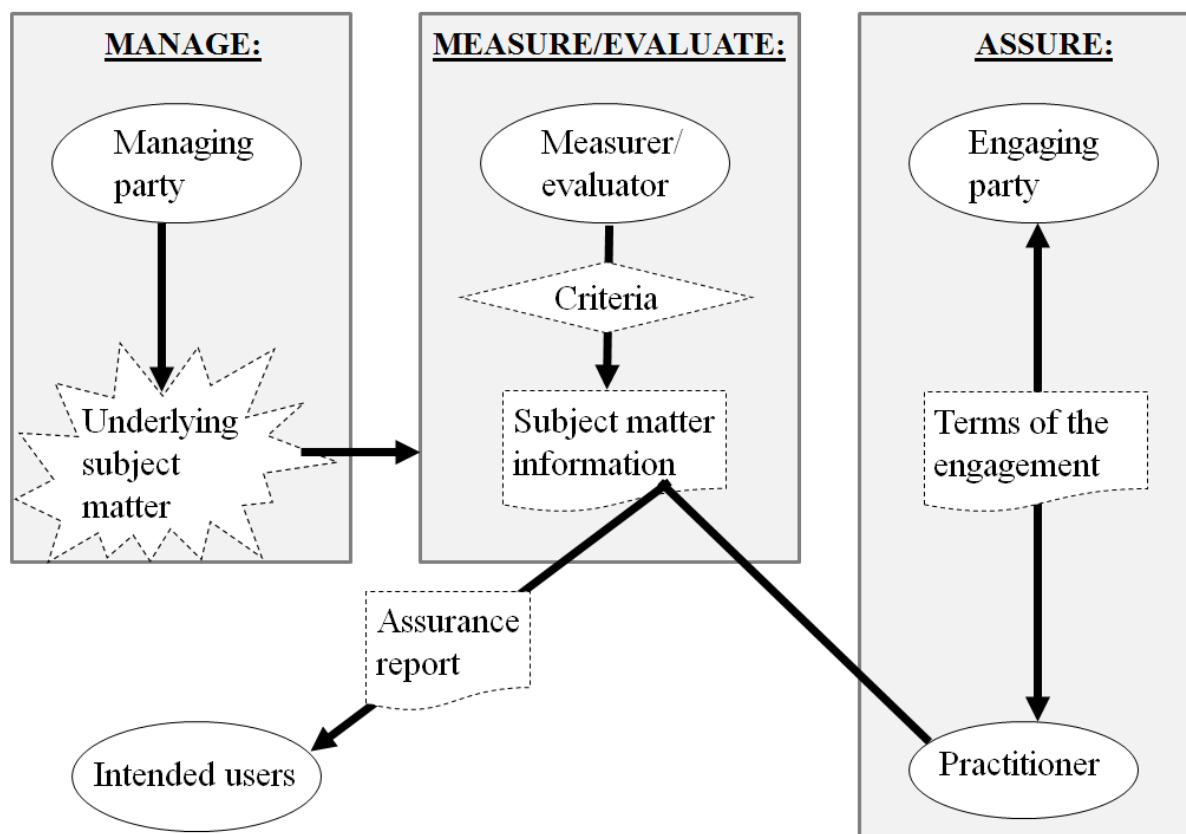
- (q) Professional skepticism – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of engagement evidence.
- (r) Risk of material misstatement – The risk that the subject matter information is materially misstated. This consists of two components, described as follows:
 - (i) Inherent risk – The susceptibility of the subject matter information to a misstatement that could be material, either individually or when aggregated with other misstatements, before consideration of any related controls.
 - (ii) Control risk – The risk that a misstatement that occurs in the subject matter information that could be material, either individually or when aggregated with other misstatements, will not be prevented, or detected and corrected, on a timely basis by the entity's internal control.

Appendix 2

(Ref: Para. A3–A12 and A30–A31)

The Parties to an Assurance Engagement

1. All assurance engagements have at least three parties: the managing party, the practitioner, and the intended users. Depending on the engagement circumstances, the roles of measurer/evaluator and of the engaging party may also be assumed by one of these parties or by another party(ies).



2. The above diagram illustrates how the following roles relate to an assurance engagement:
 - (a) The managing party is responsible for the underlying subject matter.
 - (b) The measurer or evaluator uses the criteria to measure or evaluate the underlying subject matter resulting in the subject matter information.
 - (c) The engaging party agrees the terms of the engagement with the practitioner.
 - (d) The practitioner gathers sufficient appropriate engagement evidence in order to expresses a conclusion designed to enhance the degree of confidence of the intended users other than the managing party or the measurer/evaluator about the outcome of the evaluation or measurement of the underlying subject matter against criteria.

- (e) The intended users make decisions on the basis of the subject matter information. The intended users are the individual(s) or organization(s), or class(es) thereof for whom the practitioner prepares the assurance report.
3. The following observations can be made about these roles:
- The practitioner cannot be the managing party, the engaging party or an intended user.
 - In a direct engagement, the practitioner is also the measurer/evaluator.
 - In an attestation engagement, the managing party, or someone else, but not the practitioner, can be the measurer or evaluator.
 - Where the practitioner has evaluated or measured the underlying subject matter against the criteria, the engagement is a direct assurance engagement. The character of that engagement cannot be changed to an attestation engagement by another party assuming responsibility for the evaluation or measurement, for example, by the managing party attaching a statement to the subject matter information accepting responsibility for it.
 - The managing party can be the engaging party.
 - In many attestation engagements the managing party may also serve as be the measurer or evaluator, and as the engaging party. An example is when an entity engages a practitioner to perform an assurance engagement regarding a report it has prepared about its own sustainability practices. An example of when the managing party is different from the measurer or evaluator, is when the practitioner is engaged to perform an assurance engagement regarding a report prepared by government organization about a private company's sustainability practices.
 - In an attestation engagement, the measurer or evaluator ordinarily provides the practitioner with a written representation about the subject matter information. In some cases, the practitioner may not be able to obtain such a representation, for example, when the engaging party is not the measurer or evaluator.
 - The managing party can be one of the intended users, but not the only one.
 - The managing party, the measurer or evaluator, and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the executive board of that entity. The relationship between the managing party, the measurer or evaluator, 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 (an intended user) 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 (the managing party), but for which senior management is ultimately responsible.
 - The engaging party that is not also the managing party can be the intended user.