

Appendix 2

(Ref: Para.8)

NATURE OF ASSURANCE AND NON-ASSURANCE ENGAGEMENTS

Introduction

Some engaging parties require engagements which combine levels of assurance and no assurance, different subject matters, different criteria and both attestation and direct engagements. Multiple AUASB Standards will apply to such engagements and consequently the acceptance, planning, conduct and reporting of those engagements can be complex and confusing.

All assurance engagements involve the evaluation or measurement of a subject matter (such as financial information, controls or compliance activities) against criteria (financial reporting frameworks, control objectives, legislation/regulation/contractual requirements) to reach a reasonable or limited assurance conclusion. In attestation engagements, the responsible party (the entity), conducts that evaluation or measurement and presents the results in a statement (such as a financial statement, attestation on operating effectiveness of controls or attestation on compliance with requirements). In direct engagements,³⁸ no evaluation or measurement is undertaken by the responsible party.

Agreed-upon procedures engagements are engagements to conduct procedures that have been agreed to by the auditor and the engaging party, where the auditor reports factual findings and the auditor does not provide assurance.

Subject Matters

Subject matters are the focus of specific (assurance) engagement objectives and can take many forms, such as:

- (a) Financial performance or conditions (for example, historical or prospective financial position, financial performance and cash flows) the measurement of which is presented in the subject matter information such as a financial report, a summary or extract from a financial report or a single financial statement.
- (b) Non-financial performance or conditions (for example, performance of an entity) for which the subject matter information may be key performance indicators of efficiency and/or effectiveness.
- (c) Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.
- (d) Systems and processes (for example, an entity's internal control or IT system) for which the subject matter information may be an attestation about effectiveness of that system to meet control objectives.
- (e) Behaviour (for example, corporate governance, compliance with regulation and human resource practices) for which the subject matter information may be a statement of compliance or a statement of effectiveness.

Compliance engagements may cover short periods of time or may relate to compliance over the reporting period, such as is expected with legislation and regulation.

An appropriate subject matter:

- (a) Is identifiable, and capable of evaluation or measurement against the identified criteria; and

³⁸ See ASAE 3000 – definitions.

- (b) Can be subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.

Suitable Criteria

Criteria are the benchmarks used to measure or evaluate the underlying subject matter. Suitable criteria are those which exhibit the characteristics of: relevance, completeness, reliability, neutrality and understandability.³⁹

Levels of Assurance

Assurance is where an auditor expresses a conclusion designed to enhance the degree of confidence of the intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria.

A reasonable assurance engagement means an assurance engagement where the auditor's objective, directed by the engagement mandate, is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the assurance engagement as the basis for the auditor's conclusion – an opinion. A reasonable assurance engagement is commonly referred to as an audit.

A limited assurance engagement means an assurance engagement where the auditor's objective, directed by the engagement mandate, is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the assurance engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for concluding and reporting based on the work performed and the evidence obtained. A limited assurance engagement is commonly referred to as a review when the subject matter is historical financial information.

Agreed-upon procedures engagements

Agreed-upon procedures engagements, performed by an auditor, are where factual findings are reported but no conclusion or opinion is expressed and no assurance is provided by the auditor (or assurance practitioner). The intended users draw their own conclusions based on the factual findings reported combined with any other information they may have obtained.

Reporting Frameworks

The form and content of the auditor's report are directed by the reporting frameworks, or other criteria, used to produce the subject matter information. Subject matter reporting frameworks may be:

- (a) Prescribed by law or regulation, such as the Australian Accounting Standards;
- (b) Established conventions that are generally recognised, such as cash accounting; or
- (c) Established by users to meet their special needs, such as reports on internal controls.

AUASB Standards

The AUASB Standards are set out to address:

- (a) Historical financial information⁴⁰:
 - (i) Fair presentation frameworks; and
 - (ii) Compliance frameworks; and
- (b) Other than historical financial reporting⁴¹ - which include compliance, controls and performance engagements.

³⁹ See ASAE 3000, paragraph 24(b)(ii)].

⁴⁰ See ASA 200, paragraph 13.

Under the AUASB Standards on Assurance Engagements, and the requirements of ethical⁴² and professional standards, an auditor is required to determine that the subject matter reporting framework is acceptable/suitable in the circumstances of the engagement. A clear understanding of the framework used to present the subject matter information is fundamental to the auditor establishing the form and content of the auditor's report.

⁴¹ See the AUASB's Standards on Assurance Engagements (SAEs).

⁴² See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.