TOPIC 1

ASSURANCE AND NON-ASSURANCE

ASSURANCE AND NON-ASSURANCE CONCEPT

Auditing the independent examination of and expression of opinion on, the financial statements of an enterprise by an appointed auditor in pursuance of that appointment and in compliance with any relevant statutory obligation

Auditor—"Auditor" is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant.

Audit This is the independent investigation into the quality of published accounting information.

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ELEMENTS ASSURANCE ENGAGEMENT.

There are five elements that must all be present in order to qualify the engagement as an assurance engagement. **(TSECA)**

1. A three-party relationship involving a practitioner, a responsible party, and intended users;
2. An appropriate subject matter;
3. Sufficient appropriate evidence;
4. Suitable Criteria;
5. A written assurance report in the form appropriate to a reasonable assurance engagement or a limited assurance engagement.

Appropriate Subject Matter

The subject matter and the subject matter information of an assurance engagement can take many forms, such as:

- Financial performance or conditions
- Non-financial performance or conditions
- Physical characteristics

- Systems and Processes
- Behavior

An appropriate subject matter is

- Identifiable and capable of consistent evaluation or measurement against the identified criteria
- Capable of being subjected to procedures for gathering sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate

Sufficient Appropriate Evidence

- **Sufficiency** is the measure of the quantity of evidence
  - The quantity of evidence needed is affected by the risk of the subject matter being materially misstated.
- **Appropriateness** is the measure of the quality of evidence, that is, its relevanceand reliability
  - The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained.
  - Generalization about the reliability of evidence – evidence is more reliable if:
    - Obtain from independent source outside the entity
    - Generated internally when the related controls are effective
    - Obtained directly by the practitioner than indirect or by inference
    - Exist in documentary form
    - Provided by original documents
- Merely obtaining more evidence **may not** compensate for its poor quality
- The auditor should consider the cost of obtaining the usefulness of the evidence.

Suitable Criteria

The following are the characteristics of a criteria to be considered suitable:

- Relevance – contribute to conclusions that assist decision-making by the intended users.
- Completeness – the relevant factors that could affect the conclusions are not omitted. Includes benchmarks for presentation and disclosure
- Reliability – allows reasonably consistent evaluation or measurement of the subject matter including where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners
- Neutrality – free from bias
- Understandability – contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations

Types of Assurance Engagements

1. As to level of assurance:

a) Reasonable Assurance

The objective is a reduction in assurance engagement risk to an acceptably low level as the basis for a positive form of expression of a practitioner's conclusion. (e.g., audit of historical financial statements)

b) Limited Assurance

The objective is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where the risk is greater that for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion. (e.g., review of historical financial statements

2. As to structure of engagement:

a) Assertion-based

The evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of assertion to the intended users.

b) Direct Reporting

The practitioner either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to intended users. The subject matter information is provided to the intended users in the assurance report.

IMPORTANCE OF ASSURANCE ENGAGEMENTS

1. Potential bias in providing information
2. Remoteness between a user and the organization
3. Complexity of the transactions, information, or processing systems
4. Investors need to manage their risk and thereby minimize financial surprises as consequences to investors, and others, of relying on inaccurate information can be quite significant.

LIMITATIONS OF ASSURANCE ENGAGEMENTS

1. Use of selective testing (sampling)
2. Use of judgment
3. Inherent Limitations of internal control
4. Persuasive evidence rather than conclusive evidence

5. Characteristics of the subject matter

NON-ASSURANCE ENGAGEMENTS

If an engagement lacks the five elements of assurance engagements, it is considered nonassurance (residual definition). Examples of non-assurance engagement are the following:

1. Agreed-upon procedures
2. Compilations engagements
3. Preparation of Income tax returns where no conclusion conveying assurance is expressed
4. Management advisory services and Consulting
5. Engagement that includes rendering of professional opinions not intended to be an assurance report

An audit is an objective examination and evaluation of the financial statements of an organization to make sure that the records are a fair and accurate representation of the transactions they claim to represent. It can be done internally by employees of the organization, or externally by an outside firm.

Auditor—"Auditor" is used to refer to the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used.

Definition and Objective of an Assurance Engagement

"Assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

Practitioner:

The person who performs the engagement. It is broader than the term "auditor" which relates only to practitioners performing audit or review engagements with respect to historical financial information

Responsible Party:

The person responsible for the subject matter in direct reporting engagement or subject matter information (the assertion), and may be the subject matter in an assertion-based engagement.

The responsible party may or may not be the party who engages the practitioner or the engaging party.

Intended Users:

For whom the assurance report is prepared. The responsible party can be one of the intended users, but not the only one.

Suitable Criteria:

Benchmarks used to evaluate or measure the subject matter

Professional Skepticism:

An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.

AGREED UPON PROCEDURES

Non-assurance Engagements

- Agreed upon Procedures
- Compilations

Reviews

The objective of a review of financial statements is to enable **an auditor to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the auditor's attention that causes the auditor to believe that the financial statements are not prepared,** in all material respects, in accordance with an identified financial reporting framework. A similar objective applies to the review of financial or other

Information prepared in accordance with appropriate criteria.

Agreed-upon Procedures

In an engagement to perform agreed-upon procedures, an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third **parties have** agreed and to report on factual findings. The recipients of the report must form their own conclusions from the report by the auditor. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures, may misinterpret the results.

Compilations

In a compilation engagement, the accountant is engaged to use accounting expertise as opposed to auditing expertise to collect, classify and summarize financial information. This ordinarily entails reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information. The procedures employed are not designed and do not enable the accountant to express any assurance on the financial information. However, users of the compiled financial information derive some benefit as a result of the accountant's involvement because the service has been performed with due professional skill and care.

The objective of compilations is to collect, summarize and classify financial information i.e. using accounting rather than auditing expertise into understandable form e.g. financial statements

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ASSURANCE REPORTS

The need for assurance reports is increasing because for example,

- The need quicker and better information for decision making in increasingly competitive business environment.
- The complexity of systems and the anonymity of the internet present potential barriers to growth.
- The need for independent assurance that decisions are made based on reliable information.

An assurance engagement is an engagement in which the practitioner expresses a conclusion designed to enhance the degree of confidence of intended users, other than the responsible party, about the outcome of the evaluation or measurement of subject matter against criteria.

The practitioner provides a written report containing a conclusion that conveys the assurance obtained about the subject matter information. He or she also considers othe reporting responsibilities including communicating with those charged with governance.

ISAs, ISREsand ISAE s establish basic elements of assurance reports.

The form of assurance given maybe reasonable assurance or limited assurance.

A reasonable assurance engagement expresses an opinion in a positive form while a limited assurance engagement expresses a conclusion in a negative form.