

# Principles of Auditing: An Introduction to International Standards on Auditing

## Chapter 14 – Other Assurance and Non-Assurance Engagements

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What services does an independent audit firm offer their clients?

# Audit services start here

**IFAC Code of Ethics for Professional Accountants**

*Services covered by IAASB Pronouncements*

**ISQCs 1–99 International Standards on Quality Control**

**International Framework for Assurance Engagements**

**Audits and reviews of historical financial information (1)**

**Assurance engagements other than (1)**

**Related Services**

**ISA's  
100–999**

**ISRE's  
2000–2699**

**ISAE's  
3000–3699**

**ISRS's  
4000–4699**

**IAPS's  
1000–1999**

**IREPS's  
2700–2999**

**IAEPS's  
3700–3999**

**IRSPS's  
4700–4999**

# Not all engagements performed by practitioners are assurance engagements

Frequently performed engagements that are **not** covered by the Assurance Framework are:

- Engagements covered by International Standards for Related Services (ISRS), such as agreed-upon procedures and compilations.
- The preparation of tax returns where no conclusion conveying assurance is expressed.
- Consulting (or advisory) engagements, such as management and tax consulting.

# Special area engagements

Special area engagements are based on historical financial information, but are not based on the financial statements as a whole or on IFRS or the requisite national standard.

# Special areas engagements (Continued)

Special areas engagements reports include any of the following:

1. Reports on Financial Statements Prepared in Accordance with the special purpose framework (ISA 800)
2. Reports on Audits of Single Financial Statements and Specific Elements, Accounts or Items of Financial Statement (ISA 805)
3. Reports on Summarised Financial Statements (ISA 810).

# **Reports on financial statements prepared in accordance with the special purpose framework (ISA 800)**

Examples:

Reports based on:

- a tax basis of accounting;
- the cash receipts and disbursements basis of accounting;
- information that an entity may be requested to prepare for creditors;
- the financial reporting provisions established by a or the financial reporting provisions of a contract.

# **Reports on audits of single financial statements and specific elements, accounts or items of financial statement (ISA 805)**

The auditor may be requested to express an opinion on one or more elements of financial statements (for example: accounts receivable, inventory, an employee's bonus calculation or a provision for income taxes).

This type of engagement may be done as a separate engagement or in conjunction with an audit of the entity's financial statements.

The auditor would express an opinion only as to whether that specific element audited is prepared in accordance with the accounting standards.



# **Reports on summarised financial statements (ISA 810)**

An auditor should only take an engagement to report on summarised financial statements if he has expressed an audit opinion on the financial statements from which the summary is made.

Summarised financial statements are much less detailed than annual audited financial statements. Therefore, the summarised nature of the information reported needs to be clearly indicated.

# Review engagements (ISRE 2400)

The objective of a review of financial statements is to enable an auditor to state (based on limited procedures) ‘nothing has come to the auditor’s attention that causes the auditor to believe that the financial statements do not give a true and fair view (or are not presented fairly, in all material respects) in accordance with (an identified financial reporting framework).’

This way of expressing an opinion is called negative assurance.

# **Review engagements (ISRE 2400) (Continued)**

Where reviews of financial statements differ most from a financial statement audit is in the limited procedures performed (limited in inquiry of management and analytical procedures) and the review report. Reviews are limited assurance engagements.

## Review: limited audit procedures

- ***Inquiry*** consists of seeking information of knowledgeable persons inside or outside the entity.
- ***Analytical procedures*** consist of the analysis of significant ratios and trends including the resulting investigation of fluctuations and relationships that are inconsistent with other relevant information or deviate from predictable amounts.
- ***Inspection*** consists of examining records, documents or tangible assets.

# **Assurance engagements on subject matters other than historical financial information (ISAEs)**

The ISAE standards are divided into two parts:

1. ISAEs 3000–3399 which are topics that apply to all assurance engagements
2. ISAEs 3400–3699 which are subject specific standards.

# **ISAEs 3000–3399: Apply to all assurance engagements**

Currently standard ISAE 3000 is the only standard that applies to all subject matters (ISAEs 3000–3399). This standard establishes a framework for assurance engagements other than audits or reviews of historical financial information.

# ISAEs 3000–3399: Apply to all assurance engagements (Continued)

The assurance report regarding ISAE engagements should contain the following:

- (a) Title.
- (b) Addressee.
- (c) Identification and description of the subject matter information.
- (d) Identification of the criteria.
- (e) Where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria.
- (f) When the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose.
- (g) A statement to identify the responsible party and to describe the responsible party's and the practitioner's responsibilities.
- (h) A statement that the engagement was performed in accordance with ISAEs.
- (i) A summary of the work performed.
- (j) The practitioner's conclusion.
- (k) The assurance report date.
- (l) The name of the firm or the practitioner, and a specific location.

Although currently not mentioned in ISAE 3000, the report will also contain the practitioner's signature.

# Reasonable and limited assurance engagements

- Reasonable assurance engagement objective 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.
- Limited assurance engagement objective 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.



# ISAEs 3400–3699: Subject specific standards

The subject matters currently covered by IAASB's pronouncements are:

- ISAE 3400 The Examination of **Prospective** Financial Information
- ISAE 3402 Assurance **Reports on Controls** at a Service Organisation
- ISAE 3410 Assurance Engagements on **Greenhouse Gas** Statements
- ISAE 3420 Assurance Engagements to Report on the Compilation of **Pro Forma Financial Information** Included in a Prospectus.

## **Examples of existing standards that may be considered in systems and processes, non-financial information or behaviour assurance engagements are:**

- Sarbanes–Oxley Section 404 internal control audit standard
- Global Reporting Initiative (GRI) *Sustainability Reporting Guidelines*
- SA 8000 standards for social accountability towards employees.

# The examination of prospective financial information (ISAE 3400)

- ‘Prospective financial information’ means financial information based on assumptions about events that may occur in the future. Prospective financial information can be in the form of a forecast, a projection or a combination of both.
  - A ‘forecast’ is prospective financial information prepared on the basis of management’s assumptions as to future events (best-estimate assumptions).
  - A ‘projection’ means prospective financial information prepared on the basis of hypothetical assumptions about future events and management actions which may or may not take place, such as a possible merger of two companies (‘what-if’ scenario).

# Internal control reporting and SOX 404 reporting

A company must issue an internal control report containing these statements:

- Management's responsibility for establishing and maintaining adequate internal control.
- The framework used by management to evaluate the effectiveness of internal control over financial reporting.
- Management's assessment of the effectiveness of the company's internal control over financial reporting.
- The report is reviewed by an external auditor.

# Auditor standards for internal control reports

- The PCAOB rules require that public accounting firms describe in the audit report the scope of its testing of the company's internal control structure and procedures performed in its internal control evaluation under SOX section 404(b).
- In the audit report, the registered public accounting firm also must describe, at a minimum, material weaknesses in company internal controls and any material non-compliance found.

# Sustainability reporting 'triple bottom line' assurances

Economic sustainability an organisation's impacts on the economic circumstances of its stakeholders and on economic systems at the local, national and global levels.

Environmental sustainability an organisation's impacts on living and non-living natural systems, including ecosystems, land, air and water.

Social sustainability an organisation's impacts on the social systems within which it operates.

- Impacts on stakeholders at the local, national and global levels.

- The organisation's intangible assets, such as its human capital and reputation.

# The report under the GRI Guidelines has 5 sections

*A report under GRI Guideline 3.1 comprises of two parts:*

*Part 1 – Reporting Principles and Guidance*

- *Principles to define report content:*
  - *Materiality*
  - *Stakeholder inclusiveness*
  - *Sustainability context*
  - *Completeness*
- *Principles to define report quality*
- *Guidance on how to set the report boundary.*

*Part 2 – Standard Disclosures*

- *Strategy and profile*
- *Management approach*
- *Performance indicators.*

# Related services framework (ISRSs)

Standards under this framework, International Standards on Related Services (ISRSs), are applied currently to two services:

- Agreed-upon procedures (ISRS 4400) agreed-upon procedures are based on audit procedures in a very limited 'agreed-upon' area with a proscribed set of users.
- Compilations (ISRS 4410 ) compilations offer no assurance.



## **Engagements to perform agreed-upon procedures regarding financial information (ISRS 4400)**

- The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor, and the entity, and third parties have agreed to report on factual findings.
- Agreed-upon procedures are not considered to be an assurance engagement. The intended user assesses the procedures and findings and draws his own conclusions.

# Audit procedures agreed

The auditor performs certain procedures on subject matter information like financial data (e.g. accounts payable, accounts receivable, purchases from related parties and sales and profits of a segment of an entity), a financial statement (e.g. a balance sheet) or even a complete set of financial statements.

# **Engagements to compile financial information (ISRS 4410)**

The objective of a compilation engagement is for the accountant to use accounting expertise, as opposed to auditing expertise, to collect, classify and summarise financial information. This ordinarily entails reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information.

# Thank you for your attention

## Any Questions?