



**Note 3 on the ISSAIs 100, 200, 300 and 400 presented to the XXI INCOSAI**

## **The terminology of ISSAI 100 compared with the International Framework for Assurance Engagements**

*ISSAI 100 - Fundamental Principles of Public-Sector Auditing* provides concepts and principles for financial, performance, compliance and other public sector audits by SAIs. The project group has strived to use a terminology that is generally used and recognized by SAIs as well as the wider auditing profession. Members of the project group have referred to and compared with the terminology used by existing ISSAIs and other international and national standards throughout the drafting process.

As a consequence of previous INCOSAI decisions the *Financial Auditing Guidelines (ISSAIs 1000-1999)* include the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) established by the International Federation of Accountants (IFAC). The ISAs are part of a wider set of standards that also include standards for other engagements that may be undertaken by auditing firms. In some countries this wider system of standards from the IAASB has to a various degree influenced the national environment in which SAIs operate.

Within the IAASB's system of standards the **International Framework for Assurance Engagements (IFAE)** provides a common conceptual basis for the ISAs, the International Standards on Review Engagements (ISRE) and the International Standards on other Assurance Engagements (ISAE). The terminology used in the ISAs and the *Financial Auditing Guidelines (ISSAIs 1000-1999)* draws on the basic concepts of the IFAE and some of these concepts are also referred to in the *Compliance Auditing Guidelines (ISSAIs 4000-4999)*.

The following table offers a comparison of the use of terminology in the *ISSAI 100 Fundamental Principles of Public Sector Auditing* and the *International Framework for Assurance Engagements*.

Term	Key description in ISSAI 100	Comparable language in the International Framework for Assurance Engagements (IFAE) <sup>*)</sup>
<b>Framework of public sector auditing</b>		
<b>Public-sector auditing</b>	<p>The public-sector audit environment is that in which governments and other public-sector entities exercise responsibility for the use of resources derived from taxation and other sources in the delivery of services to citizens and other recipients. These entities are accountable for their management and performance, and for the use of resources, both to those that provide the resources and to those, including citizens, who depend on the services delivered using those resources. Public-sector auditing helps to create suitable conditions and reinforce the expectation that public-sector entities and public servants will perform their functions effectively, efficiently, ethically and in accordance with the applicable laws and regulations.</p> <p>In general public-sector auditing can be described as a systematic process of objectively obtaining and evaluating evidence to determine whether information or actual conditions conform to established criteria. Public-sector auditing is essential in that it provides legislative and oversight bodies, those charged with governance and the general public with information and independent and objective assessments concerning the stewardship and performance of government policies, programmes or operations.</p> <p><i>ISSAI 100/17-18</i></p>	<p>Definition and Objective of an Assurance Engagement</p> <p>“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.</p> <p>The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria to the subject matter. [...]</p> <p>In the remainder of this Framework, the term “subject matter information” will be used to mean the outcome of the evaluation or measurement of a subject matter. It is the subject matter information about which the practitioner gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report. (IFEA item 7-8)</p> <p>Not all engagements performed by practitioners are assurance engagements. (IFAE item 12)</p> <p>“Reasonable assurance” is a concept relating to accumulating evidence necessary for the practitioner to conclude in relation to the subject matter information taken as a whole. To be in a position to express a conclusion in the positive form required in a reasonable assurance engagement, it is necessary for the practitioner to obtain sufficient appropriate evidence as part of an iterative, systematic engagement process [...]</p> <p>(IFAE item 51)</p> <p><i>[Note: The term ‘auditing’ is not defined by the IFAE but by the International Standards on Auditing, ISA. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements or other historical financial information. The auditor is required to</i></p>

<sup>\*)</sup> Based on the version of the IFAE that took effect on 1 January 2005. The IAASB is in the process of revising the ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information. The revision of this standard is expected to lead to editorial conforming changes in the IFAE.

		<i>obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, cf. ISA 200 included in ISSAI 1200]</i>
<b>Objectives</b>	<p>All public-sector audits start from objectives, which may differ depending on the type of audit being conducted. However, all public-sector auditing contributes to good governance by:</p> <ul style="list-style-type: none"> <li>- providing the intended users with independent, objective and reliable information, conclusions or opinions based on sufficient and appropriate evidence relating to public entities;</li> <li>- enhancing accountability and transparency, encouraging continuous improvement and sustained confidence in the appropriate use of public funds and assets and the performance of public administration;</li> <li>- reinforcing the effectiveness of those bodies within the constitutional arrangement that exercise general monitoring and corrective functions over government, and those responsible for the management of publicly-funded activities;</li> <li>- creating incentives for change by providing knowledge, comprehensive analysis and well-founded recommendations for improvement.</li> </ul> <p><i>ISSAI 100/20</i></p>	<p>Definition and <b>Objective</b> of an Assurance Engagement</p> <p>[...]</p> <p>Under this Framework, there are two types of assurance engagement a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement. 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. (IFEA item 11)</p>
<p><b>Types of public-sector audit:</b></p> <p><b>Financial Audit</b></p> <p><b>Performance Audit</b></p> <p><b>Compliance audit</b></p>	<p>The three main types of public-sector audit are defined as follows:</p> <p><u>Financial audit</u> focuses on determining whether an entity's financial information is presented in accordance with the applicable financial reporting and regulatory framework. This is accomplished by obtaining sufficient and appropriate audit evidence to enable the auditor to express an opinion as to whether the financial information is free from material misstatement due to fraud or error.</p> <p><u>Performance audit</u> focuses on whether interventions, programmes and institutions are performing in accordance with the principles of economy, efficiency and effectiveness and whether there is room for improvement. Performance is examined against suitable criteria, and the causes of deviations from those criteria or other problems are analysed. The aim is to answer key audit questions and to provide recommendations for improvement.</p> <p><u>Compliance audit</u> focuses on whether a particular subject matter is in compliance with authorities identified as criteria. Compliance auditing is performed by assessing whether activities, financial transactions and information are, in all material respects, in compliance with the authorities which govern the audited entity. These authorities may include rules, laws and regulations, budgetary resolutions, policy, established codes, agreed terms or the general principles governing sound public-sector financial management and the conduct of public officials.</p>	<p>[Note: Cf. the ISAs included in the Financial Auditing Guidelines]</p>

<p><b>Combined audits, other engagements</b></p>	<p>SAls may carry out audits or other engagements on any subject of relevance to the responsibilities of management and those charged with governance and the appropriate use of public resources. These engagements may include reporting on the quantitative outputs and outcomes of the entity's service delivery activities, sustainability reports, future resource requirements, adherence to internal control standards, real-time audits of projects or other matters. SAls may also conduct combined audits incorporating financial, performance and/or compliance aspects.</p> <p><i>ISSAI 100/22-23</i></p>	
<p><b>Elements of public sector auditing</b></p>		
<p><b>The three parties, the auditor, the responsible party, Intended users</b></p>	<p>Public-sector audits involve at least three separate parties: the auditor, a responsible party and intended users. The relationship between the parties should be viewed within the context of the specific constitutional arrangements for each type of audit.</p> <p><u>The auditor:</u> In public-sector auditing the role of auditor is fulfilled by the Head of the SAI and by persons to whom the task of conducting the audits is delegated. The overall responsibility for public-sector auditing remains as defined by the SAI's mandate.</p> <p><u>The responsible party:</u> In public-sector auditing the relevant responsibilities are determined by constitutional or legislative arrangement. The responsible parties may be responsible for the subject matter information, for managing the subject matter or for addressing recommendations, and may be individuals or organisations.</p> <p><u>Intended users:</u> The individuals, organisations or classes thereof for whom the auditor prepares the audit report. The intended users may be legislative or oversight bodies, those charged with governance or the general public.</p> <p><i>ISSAI 100/25</i></p>	<p>Assurance engagements involve <b>three separate parties</b>: a practitioner, a <b>responsible party</b> and <b>intended users</b>.</p> <p>[..] The responsible party and the intended users may be from different entities or the same entity.</p> <p>[..] The term "practitioner" as used in this Framework is broader than the term "<b>auditor</b>" as used in ISAs and ISREs, which relates only to practitioners performing audit or review engagements with respect to historical financial information.</p> <p>[..] The responsible party is the person (or persons) who: (a) In a direct reporting engagement, is responsible for the subject matter; or (b) In an assertion-based engagement, is responsible for the subject matter information (the assertion), and may be responsible for the subject matter.</p> <p>[..] The intended users are the person, persons or class of persons for whom the practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one.</p> <p>(IFAE item 21-26)</p>

<p><b>Subject matter</b></p>	<p>Subject matter refers to the information, condition or activity that is measured or evaluated against certain criteria. It can take many forms and have different characteristics depending on the audit objective. An appropriate subject matter is identifiable and capable of consistent evaluation or measurement against the criteria, such that it can be subjected to procedures for gathering sufficient and appropriate audit evidence to support the audit opinion or conclusion.</p> <p><i>ISSAI 100/26</i></p>	<p><b>Subject matters</b> 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.</p> <p>An appropriate subject matter is:</p> <p>(a) Identifiable, and capable of consistent evaluation or measurement against the identified criteria; and</p> <p>(b) Such that the information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.</p> <p>(IFAE item 32-33)</p>
<p><b>Criteria</b></p>	<p>The criteria are the benchmarks used to evaluate the subject matter. Each audit should have criteria suitable to the circumstances of that audit. In determining the suitability of criteria the auditor considers their relevance and understandability for the intended users, as well as their completeness, reliability and objectivity (neutrality, general acceptance and comparability with the criteria used in similar audits). The criteria used may depend on a range of factors, including the objectives and the type of audit. Criteria can be specific or more general, and may be drawn from various sources, including laws, regulations, standards, sound principles and best practices. They should be made available to the intended users to enable them to understand how the subject matter has been evaluated or measured.</p> <p><i>ISSAI 100/27</i></p>	<p><b>Criteria</b> are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria can be formal, for example in the preparation of financial statements, the criteria may be International Financial Reporting Standards or International Public Sector Accounting Standards; when reporting on internal control, the criteria may be an established internal control framework or individual control objectives specifically designed for the engagement; and when reporting on compliance, the criteria may be the applicable law, regulation or contract.</p> <p>Examples of less formal criteria are an internally developed code of conduct or an agreed level of performance (such as the number of times a particular committee is expected to meet in a year).</p> <p>[...]</p> <p>Suitable criteria are required for reasonably consistent evaluation or measurement of a 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. Suitable criteria are context-sensitive, that is, relevant to the engagement circumstances. Even for the same subject matter there can be different criteria. For example, one responsible party might select the number of customer complaints resolved to the acknowledged satisfaction of the customer for the subject matter of customer satisfaction; another responsible party might select the number of repeat purchases in the three months following the initial purchase.</p> <p>[...]</p> <p>Suitable criteria exhibit the following characteristics:</p> <p>(a) Relevance: relevant criteria contribute to</p>

		<p>conclusions that assist decision-making by the intended users.</p> <p>(b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure.</p> <p>(c) Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners.</p> <p>(d) Neutrality: neutral criteria contribute to conclusions that are free from bias.</p> <p>(e) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.</p> <p>The evaluation or measurement of a subject matter on the basis of the practitioner's own expectations, judgments and individual experience would not constitute suitable criteria. (IFAE item 34-36)</p>
<p><b>Subject matter information</b></p>	<p>Subject matter information refers to the outcome of evaluating or measuring the subject matter against the criteria. It can take many forms and have different characteristics depending on the audit objective and audit scope.</p> <p><i>ISSAI 100/28</i></p>	<p>[...] the term "<b>subject matter information</b>" will be used to mean the outcome of the evaluation or measurement of a subject matter</p> <p>Subject matter information can fail to be properly expressed in the context of the subject matter and the criteria, and can therefore be misstated, potentially to a material extent. This occurs when the subject matter information does not properly reflect the application of the criteria to the subject matter, for example, when an entity's financial statements do not give a true and fair view of (or present fairly, in all material respects) its financial position, financial performance and cash flows in accordance with International Financial Reporting Standards [...] (IFAE item 8-9)</p> <p>The subject matter, and subject matter information, of an assurance engagement can take many forms (IFAE item 31)</p>
<p><b>Types of engagement</b></p>	<p>There are two types of engagement.</p> <p>In <u>attestation engagements</u> the responsible party measures the subject matter against the criteria and presents the subject matter information, on which the auditor then gathers sufficient and appropriate audit evidence to provide a reasonable basis for expressing a conclusion.</p>	<p>In some assurance engagements, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available</p>

	<p>In <u>direct reporting engagements</u> it is the auditor who measures or evaluates the subject matter against the criteria. The auditor selects the subject matter and criteria, taking into consideration risk and materiality. The outcome of measuring the subject matter against the criteria is presented in the audit report in the form of findings, conclusions, recommendations or an opinion. The audit of the subject matter may also provide new information, analyses or insights.</p> <p>Financial audits are always attestation engagements, as they are based on financial information presented by the responsible party. Performance audits are normally direct reporting engagements. Compliance audits may be attestation or direct reporting engagements, or both at once. The following constitute the subject matter or the subject matter information in the three types of audit covered by the ISSAIs.</p> <p><i>ISSAI 100/29-30</i></p>	<p>to the intended users. These engagements are called “assertion-based engagements.”</p> <p><i>[Note: In connection with a revision of the ISAE 3000 the IAASB has decided to change terminology so the term ‘attestation engagements’ is used instead of ‘assertion-based engagements’. Consequential changes in the IFAE are expected]</i></p> <p>In other assurance engagements, 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 the intended users. The subject matter information is provided to the intended users in the assurance report. These engagements are called “<b>direct reporting engagements</b>.”</p> <p>Engagement Acceptance A practitioner accepts an assurance engagement only where the practitioner’s preliminary knowledge of the engagement circumstances indicates that: [...] (b) The engagement exhibits all of the following characteristics: (i) The subject matter is appropriate; (ii) The criteria to be used are suitable and are available to the intended users; [...] (IFAE item IFAE item 17)</p>
<p><b>Confidence and assurance</b></p>	<p>The intended users will wish to be confident about the reliability and relevance of the information which they use as the basis for taking decisions. Audits therefore provide information based on sufficient and appropriate evidence, and auditors should perform procedures to reduce or manage the risk of reaching inappropriate conclusions. The level of assurance that can be provided to the intended user should be communicated in a transparent way. Due to inherent limitations, however, audits can never provide absolute assurance.</p> <p><i>ISSAI 100/31</i></p>	<p>“Assurance engagement” means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of <b>confidence</b> of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. (ISAE item 7)</p> <p>The practitioner plans and performs an assurance engagement with an attitude of professional skepticism to obtain sufficient appropriate evidence about whether the subject matter information is free of material misstatement. (ISAE item 39)</p> <p>“Reasonable <b>assurance</b>” is less than absolute assurance. Reducing assurance engagement risk to zero is very rarely attainable or cost beneficial as a result of factors such as the following:</p> <ul style="list-style-type: none"> <li>• The use of selective testing.</li> </ul>

		<ul style="list-style-type: none"> <li>• The inherent limitations of internal control.</li> <li>• The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.</li> <li>• The use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence.</li> <li>• In some cases, the characteristics of the subject matter when evaluated or measured against the identified criteria.</li> </ul> <p>(IFAE item 51)</p>
<p><b>Forms of providing assurance</b></p>	<p>Depending on the audit and the users' needs, assurance can be communicated in two ways:</p> <p>Through opinions and conclusions which explicitly convey the level of assurance. This applies to all attestation engagements and certain direct reporting engagements.</p> <p>In other forms. In some direct reporting engagements the auditor does not give an explicit statement of assurance on the subject matter. In such cases the auditor provides the users with the necessary degree of confidence by explicitly explaining how findings, criteria and conclusions were developed in a balanced and reasoned manner, and why the combinations of findings and criteria result in a certain overall conclusion or recommendation.</p> <p><i>ISSAI 100/32</i></p>	<p>The practitioner provides a written report containing a <b>conclusion</b> that conveys the assurance obtained about the subject matter information. [...]</p> <p>In an assertion-based engagement, the practitioner's conclusion can be worded either:</p> <p>(a) In terms of the responsible party's assertion (for example: "In our <b>opinion</b> the responsible party's assertion that internal control is effective, in all material respects, based on XYZ criteria, is fairly stated"); or</p> <p>(b) Directly in terms of the subject matter and the criteria (for example: "In our opinion internal control is effective, in all material respects, based on XYZ criteria").</p> <p>In a direct reporting engagement, the practitioner's conclusion is worded directly in terms of the subject matter and the criteria.</p> <p>In a reasonable assurance engagement, the practitioner expresses the conclusion in the positive form, for example: "In our opinion internal control is effective, in all material respects, based on XYZ criteria." This 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 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.</p> <p>In a limited assurance engagement, the practitioner expresses the conclusion in the negative form, for example, "Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control is not effective, in all material respects, based on XYZ criteria." This form of ex-</p>



		<p>pression conveys a level of “limited assurance” that is proportional to the level of the practitioner’s evidence-gathering procedures given the characteristics of the subject matter and other engagement circumstances described in the assurance report. (IFAE item 56-59)</p>
<p><b>Levels of assurance</b></p>	<p>Assurance can be either reasonable or limited.</p> <p>Reasonable assurance is high but not absolute. The audit conclusion is expressed positively, conveying that, in the auditor’s opinion, the subject matter is or is not compliant in all material respects, or, where relevant, that the subject matter information provides a true and fair view, in accordance with the applicable criteria.</p> <p>When providing limited assurance, the audit conclusion states that, based on the procedures performed, nothing has come to the auditor’s attention to cause the auditor to believe that the subject matter is not in compliance with the applicable criteria. The procedures performed in a limited assurance audit are limited compared with what is necessary to obtain reasonable assurance, but the level of assurance is expected, in the auditor’s professional judgement, to be meaningful to the intended users. A limited assurance report conveys the limited nature of the assurance provided.</p> <p><i>ISSAI 100/33</i></p>	<p>Under this Framework, there are two types of assurance engagement a practitioner is permitted to perform: a <b>reasonable assurance</b> engagement and a <b>limited assurance</b> engagement. 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.(IFAE item 11)</p> <p>Assurance engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated. In a reasonable assurance engagement, the practitioner reduces assurance engagement risk to an acceptably low level in the circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression of the practitioner’s conclusion. The level of assurance engagement risk is higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures. However in a limited assurance engagement, the combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance as the basis for a negative form of expression. To be meaningful, the level of assurance obtained 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. (IFAE item 48)</p>
<p><b>Used in Principles for Public Sector Auditing</b></p>		
<p><b>Professional judgement, due care and scepticism</b></p>	<p>Auditors should maintain appropriate professional behaviour by applying professional scepticism, professional judgment and due care throughout the audit</p> <p>The auditor’s attitude should be characterised by profes-</p>	<p>The practitioner plans and performs an assur-</p>

	<p>sional scepticism and professional judgement, which are to be applied when forming decisions about the appropriate course of action. Auditors should exercise due care to ensure that their professional behaviour is appropriate.</p> <p>Professional scepticism means maintaining professional distance and an alert and questioning attitude when assessing the sufficiency and appropriateness of evidence obtained throughout the audit. It also entails remaining open-minded and receptive to all views and arguments. Professional judgement implies the application of collective knowledge, skills and experience to the audit process. Due care means that the auditor should plan and conduct audits in a diligent manner. Auditors should avoid any conduct that might discredit their work.</p> <p><i>ISSAI 100/37</i></p>	<p>ance engagement with an attitude of <b>professional skepticism</b> recognizing that circumstances may exist that cause the subject matter information to be materially misstated. An attitude of professional skepticism means the practitioner makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by the responsible party. For example, an attitude of professional skepticism is necessary throughout the engagement process for the practitioner to reduce the risk of overlooking suspicious circumstances, of overgeneralizing when drawing conclusions from observations, and of using faulty assumptions in determining the nature, timing and extent of evidence gathering procedures and evaluating the results thereof. (IFEA item 40)</p> <p>Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. (IFAE item 35)</p> <p>The practitioner uses <b>professional judgment</b> and exercises professional skepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report. (IFAE item 46)</p>
<b>Audit risk</b>	<p>Auditors should manage the risks of providing a report that is inappropriate in the circumstances of the audit</p> <p>The audit risk is the risk that the audit report may be inappropriate. The auditor performs procedures to reduce or manage the risk of reaching inappropriate conclusions, recognising that the limitations inherent to all audits mean that an audit can never provide absolute certainty of the condition of the subject matter.</p> <p>When the objective is to provide reasonable assurance, the auditor should reduce audit risk to an acceptably low level given the circumstances of the audit. The audit may also aim to provide limited assurance, in which case the acceptable risk that criteria are not complied with is greater than in a reasonable assurance audit. A limited assurance audit provides a level of assurance that, in the auditor's professional judgment, will be meaningful to the intended users.</p> <p><i>ISSAI 100/40</i></p>	<p>Assurance engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated. In a reasonable assurance engagement, the practitioner reduces assurance engagement risk to an acceptably low level in the circumstances of the engagement to obtain reasonable assurance as the basis for a positive form of expression of the practitioner's conclusion. The level of assurance engagement risk is higher in a limited assurance engagement than in a reasonable assurance engagement because of the different nature, timing or extent of evidence-gathering procedures. However in a limited assurance engagement, the combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance as the basis for a negative form of expression. To be meaningful, the level of assurance obtained 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.</p>

		<p>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:</p> <p>(a) The risk that the subject matter information is materially misstated, which in turn consists of:</p> <p>(i) Inherent risk: the susceptibility of the subject matter information to a material misstatement, assuming that there are no related controls [...] (IFAE item 48-49)</p>
<p><b>Risks, risk assessment and problem analysis</b></p>	<p>Auditors should conduct a risk assessment or problem analysis and revise this as necessary in response to the audit findings</p> <p>The nature of the risks identified will vary according to the audit objective. The auditor should consider and assess the risk of different types of deficiencies, deviations or misstatements that may occur in relation to the subject matter. Both general and specific risks should be considered. This can be achieved through procedures that serve to obtain an understanding of the entity or programme and its environment, including the relevant internal controls. The auditor should assess the management's response to identified risks, including its implementation and design of internal controls to address them. In a problem analysis the auditor should consider actual indications of problems or deviations from what should be or is expected. This process involves examining various problem indicators in order to define the audit objectives. The identification of risks and their impact on the audit should be considered throughout the audit process.</p> <p><i>ISSAI 100/46</i></p>	<p>[...]To be in a position to express a conclusion in the positive form required in a reasonable assurance engagement, it is necessary for the practitioner to obtain sufficient appropriate evidence as part of an iterative, systematic engagement process involving:</p> <p>(a) Obtaining an understanding of the subject matter and other engagement circumstances which, depending on the subject matter, includes obtaining an understanding of internal control;</p> <p>(b) Based on that understanding, assessing the risks that the subject matter information may be materially misstated;</p> <p>(c) Responding to <b>assessed risks</b>, including developing overall responses, and determining the nature, timing and extent of further procedures;</p> <p>[...]</p> <p>(IFAE item 51)</p>
<p><b>Materiality</b></p>	<p>Auditors should consider materiality throughout the audit process.</p> <p>Materiality is relevant in all audits. A matter may be judged material if knowledge of it would be likely to influence the decisions of intended users. Determining materiality is a matter of professional judgement and is based on the auditor's interpretation of the needs of the users. The judgment may relate to an individual item or to a group of items in aggregate. Materiality is often considered in terms of value but has both quantitative and qualitative aspects. The inherent characteristics of an item or a group of items may also render a matter material by its nature. A matter may also be material because of the context in which it occurs.</p> <p>Materiality considerations affect the determination of the nature, timing and extent of audit procedures to be applied as well as the evaluation of the results of the audit. Materiality considerations may include stakeholders concerns, public interest, regulatory requirements, or consequences</p>	<p><b>Materiality</b> 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 of misstatement. When considering materiality, the practitioner understands and assesses what factors might influence the decisions of the intended users. For example, when the identified criteria allow for variations in the presentation of the subject matter information, the practitioner considers how the adopted presentation might influence the decisions of the intended users.</p> <p>Materiality is considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the evaluation or measurement of the subject matter, and the interests of the intended users. The assessment of materiality and the relative importance of quantitative and quali-</p>

	<p>for society etc.</p> <p><i>ISSAI 100/41</i></p>	<p>tative factors in a particular engagement are matters for the practitioner's judgment. (IFAE item 47)</p>
<p><b>Audit planning, scope and approach</b></p>	<p>Auditors should plan their work to ensure that the audit is conducted in an effective and efficient manner</p> <p>Planning for a specific audit includes strategic and operational aspects.</p> <p><u>Strategically</u>, planning should define the audit scope, objectives and approach. The objectives refer to what the audit is intended to accomplish. The scope relates to the subject matter and the criteria which the auditors will use to assess and report on the subject matter, and is directly related to the objectives. The approach will describe the nature and extent of the procedures to be used for gathering audit evidence. The audit should be planned to reduce audit risk to an acceptably low level.</p> <p><u>Operationally</u>, planning entails setting a timetable for the audit and defining the nature, timing and extent of the audit procedures. During planning, auditors should assign the members of their team as appropriate and identify other resources that may be required, such as subject experts.</p> <p>Audit planning should be responsive to significant changes in circumstances and conditions. It is an iterative process that takes place throughout the audit.</p> <p><i>ISSAI 100/48</i></p>	<p>The practitioner considers materiality, assurance engagement risk, and the quantity and quality of available evidence when <b>planning</b> and performing the engagement, in particular when determining the nature, timing and extent of evidence-gathering procedures. (IFAE item 41)</p>
<p><b>Evidence</b></p>	<p>Auditors should perform audit procedures that provide sufficient appropriate audit evidence to support the audit report</p> <p>The auditor's decisions on the nature, timing and extent of audit procedures will impact on the evidence to be obtained. The choice of procedures will depend on the risk assessment or problem analysis.</p> <p>Audit evidence is any information used by the auditor to determine whether the subject matter complies with the applicable criteria. Evidence may take many forms, such as electronic and paper records of transactions, written and electronic communication with outsiders, observations by the auditor, and oral or written testimony by the audited entity. Methods of obtaining audit evidence can include inspection, observation, inquiry, confirmation, recalculation, reperformance, analytical procedures and/or other research techniques.</p> <p>Evidence should be both sufficient (quantity) to persuade a knowledgeable person that the findings are reasonable, and appropriate (quality) – i.e. relevant, valid and reliable. The auditor's assessment of the evidence should be objective, fair and balanced. Preliminary findings should be communicated to and discussed with the audited entity to</p>	<p>The practitioner plans and performs an assurance engagement with an attitude of professional skepticism to obtain sufficient appropriate <b>evidence</b> about whether the subject matter information is free of material misstatement. The practitioner considers materiality, assurance engagement risk, and the quantity and quality of available evidence when planning and performing the engagement, in particular when determining the nature, timing and extent of evidence-gathering procedures.</p> <p>[...]</p> <p>Sufficiency is the measure of the quantity of evidence. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability. The quantity of evidence needed is affected by the risk of the subject matter information being materially misstated (the greater the risk, the more evidence is likely to be required) and also by the quality of such evidence (the higher the quality, the less may be required). Accordingly, the sufficiency and appropriateness of evidence are interrelated. However, merely obtaining more evidence may not compensate for its poor quality.</p>

	<p>confirm their validity.</p> <p>The auditor must respect all requirements regarding confidentiality.</p> <p><i>ISSAI 100/49</i></p>	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• Evidence is more reliable when it is obtained from independent sources outside the entity.</li> <li>• Evidence that is generated internally is more reliable when the related controls are effective.</li> <li>• 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).</li> <li>• 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).</li> <li>• Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.</li> </ul> <p>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. [...]</p> <p>The practitioner considers the relationship between the cost of obtaining evidence and the usefulness of the information obtained. However, the matter of difficulty or expense involved is not in itself a valid basis for omitting an evidence-gathering procedure for which there is no alternative. The practitioner uses professional judgment and exercises professional skepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report. (IFAE items 39-46)</p>
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<p><b>Conclusions, audit findings</b></p>	<p>Auditors should evaluate the audit evidence and draw conclusions</p> <p>After completing the audit procedures, the auditor will review the audit documentation in order to determine whether the subject matter has been sufficiently and appropriately audited. Before drawing conclusions, the auditor reconsiders the initial assessment of risk and materiality in the light of the evidence collected and determines whether additional audit procedures need to be performed.</p> <p>The auditor should evaluate the audit evidence with a view to obtaining audit findings. When evaluating the audit evidence and assessing materiality of findings the auditor should take both quantitative and qualitative factors into consideration.</p> <p>Based on the findings, the auditor should exercise professional judgement to reach a conclusion on the subject matter or subject matter information.</p> <p><i>ISSAI 100/50</i></p>	<p>“Reasonable assurance” is a concept relating to accumulating evidence necessary for the practitioner to <b>conclude</b> in relation to the subject matter information taken as a whole. To be in a position to express a conclusion in the positive form required in a reasonable assurance engagement, it is necessary for the practitioner to obtain sufficient appropriate evidence as part of an iterative, systematic engagement process involving: [...]</p> <p>(e) <b>Evaluating</b> the sufficiency and appropriateness of evidence.</p> <p>“Reasonable assurance” is less than absolute assurance. Reducing assurance engagement risk to zero is very rarely attainable or cost beneficial as a result of factors such as the following: [...]</p> <p>The use of judgment in gathering and evaluating evidence and forming conclusions based on that evidence. [...]</p> <p>(IFAE item 51-52)</p>
<p><b>Audit report, short form, long form, the Auditor’s Report</b></p>	<p>The form and content of a report will depend on the nature of the audit, the intended users, the applicable standards and legal requirements. The SAI’s mandate and other relevant laws or regulations may specify the layout or wording of reports, which can appear in short form or long form.</p> <p><i>Long-form reports</i> generally describe in detail the audit scope, audit findings and conclusions, including potential consequences and constructive recommendations to enable remedial action.</p> <p><i>Short-form reports</i> are more condensed and generally in a more standardised format.</p> <p>In attestation engagements the audit report may express an opinion as to whether the subject matter information is, in all material respects, free from misstatement and/or whether the subject matter complies, in all material respects, with the established criteria. In an attestation engagement the report is generally referred to as the Auditor’s Report.</p> <p>In direct engagements the audit report needs to state the audit objectives and describe how they were addressed in the audit. It includes findings and conclusions on the subject matter and may also include recommendations. Additional information about criteria, methodology and sources of data may also be given, and any limitations to the audit scope should be described.</p> <p>The audit report should explain how the evidence obtained was used and why the resulting conclusions were drawn.</p>	<p><i>[Note: Similar distinctions between ‘long form reports’ and ‘short form reports’ are found in a number of standards issued by the IAASB, including the ISAE 3000. It is not defined in the IFAE]</i></p> <p>In an assertion-based engagement, the practitioner’s conclusion can be worded either:</p> <p>(a) In terms of the responsible party’s assertion (for example: “In our opinion the responsible party’s assertion that internal control is effective, in all material respects, based on XYZ criteria, is fairly stated”); or</p>

	<p>This will enable it to provide the intended users with the necessary degree of confidence.</p> <p><i>ISSAI 100/51</i></p>	<p>(b) Directly in terms of the subject matter and the criteria (for example: “In our opinion internal control is effective, in all material respects, based on XYZ criteria”).</p> <p>In a direct reporting engagement, the practitioner’s conclusion is worded directly in terms of the subject matter and the criteria.</p> <p>In a reasonable assurance engagement, the practitioner expresses the conclusion in the positive form, for example: “In our opinion internal control is effective, in all material respects, based on XYZ criteria.” This 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 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.</p> <p>In a limited assurance engagement, the practitioner expresses the conclusion in the negative form, for example, “Based on our work described in this report, nothing has come to our attention that causes us to believe that internal control is not effective, in all material respects, based on XYZ criteria.” This 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 subject matter and other engagement circumstances described in the assurance report. (IFAE item 57-59)</p>
<p><b>The audit opinion</b></p>	<p>When an audit opinion is used to convey the level of assurance, the opinion should be in a standardised format. The opinion may be unmodified or modified. An unmodified opinion is used when either limited or reasonable assurance has been obtained. A modified opinion may be:</p> <p><i>Qualified (except for)</i> – where the auditor disagrees with, or is unable to obtain sufficient and appropriate audit evidence about, certain items in the subject matter which are, or could be, material but not pervasive;</p> <p><i>Adverse</i> – where the auditor, having obtained sufficient and appropriate audit evidence, concludes that deviations or misstatements, whether individually or in the aggregate, are both material and pervasive;</p> <p><i>Disclaimed</i> – where the auditor is unable to obtain sufficient and appropriate audit evidence due to an uncertainty or scope limitation which is both material and pervasive.</p>	<p>A practitioner does not express an <b>unqualified</b> conclusion for either type of assurance engagement when the following circumstances exist and, in the practitioner’s judgment, the effect of the matter is or may be material:</p> <p>(a) There is a limitation on the scope of the practitioner’s work. [...] The practitioner expresses a <b>qualified</b> conclusion or a <b>disclaimer</b> of conclusion depending on how material or pervasive the limitation is. In some cases the practitioner considers withdrawing from the engagement.</p> <p>(b) In those cases where:</p> <p>(i) The practitioner’s conclusion is worded in terms of the responsible party’s assertion, and that assertion is not fairly stated, in all material respects; or</p> <p>(ii) The practitioner’s conclusion is worded di-</p>

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	<p>Where the opinion is modified the reasons should be put in perspective by clearly explaining, with reference to the applicable criteria, the nature and extent of the modification. Depending on the type of audit, recommendations for corrective action and any contributing internal control deficiencies may also be included in the report.</p> <p><i>ISSAI 100/51</i></p>	<p>rectly in terms of the subject matter and the criteria, and the subject matter information is materially misstated, the practitioner expresses a qualified or <b>adverse</b> conclusion depending on how material or pervasive the matter is.</p> <p>(IFAE item 60)</p>
<b>Follow up</b>	<p>SAIs have a role in monitoring action taken by the responsible party in response to the matters raised in an audit report. Follow-up focuses on whether the audited entity has adequately addressed the matters raised, including any wider implications. Insufficient or unsatisfactory action by the audited entity may call for a further report by the SAI.</p> <p><i>ISSAI 100/51</i></p>	