ASSURANCE ENGAGEMENTS AND RELATED SERVICES

1. ASSURANCE ENGAGEMENTS/ASSURANCE SERVICES

A) What is Assurance Engagement?

"An assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against certain criteria)."

"An Assurance engagement is an Engagement, A practitioner (Accountant in practice) expresses a conclusion. which is intended to enhance the degree of confidence of intended users about information on a subject matter (The evaluation or measurement of a subject matter) that has been produced by applying certain criteria to the subject matter."

Assurance engagements play important role in providing users of financial information, confidence that the information is reasonably accurate and has been properly prepared and presented. Assurance engagements performed by professional accountants are normally intended to enhance the credibility of information about subject matter by evaluating whether the subject matter confirms in all material respects with suitable criteria, thereby improving the likelihood that the information will meet the needs of an intended user. In this regard, the level of assurance provided by the professional accountant's conclusion conveys the degree of confidence that the intended user may place on the credibility of the subject matter.

B) Objectives of Assurance Engagement

The objective of the Assurance Engagement is to provide an assurance to the intended users of the information. It can be divided into two aspects

a) Reasonable Assurance Engagement
b) Limited Assurance Engagement

Important

When a practitioner undertakes an assurance engagement, it must be clearly understood from the outset whether it is a reasonable assurance engagement or a limited assurance engagement because this will affect the work that the practitioner carries out.

Reasonable Assurance Engagement

Reasonable Assurance is a fairly high level of assurance, but it is not absolute (100%) assurance. With reasonable assurance, the practitioner reduces the risk of expressing an incorrect opinion to an acceptably low level. By reducing the risk of an incorrect opinion to such a low level, the practitioner is able to express his/her opinion in a positive form. In order to give reasonable assurance, a significant amount of testing and evaluation is required to perform by the practitioner. (Eg. Practitioner engage to perform annual statutory audit.

Limited Assurance Engagement

Limited Assurance is a lower level of assurance (Moderate Assurance) than reasonable assurance. It allows for a lesser amount of testing and evaluations. As a result, there is a greater risk that the auditor gives an incorrect opinion. Since the risk of an incorrect opinion is higher in a Limited assurance engagement, the practitioner expresses his opinion in a negative form.

The objective of a limited assurance engagement is to reduce assurance engagement risk in a line that is acceptable in the circumstances of the engagement, but where the risk is greater than for reasonable assurance engagements. Limited assurance engagements are not required to relate to financial reports or accounting figures. They may relate to non-financial information, system, controls and practices.

C) The difference between Reasonable Assurance Engagements and Limited Assurance Engagements

Reasonable Assurance Engagements	Limited Assurance Engagements
The practitioner gathers sufficient and appropriate evidences to be able to draw reasonable assurance.	The practitioner gathers sufficient and appropriate evidences to be able to draw limited assurance.
Gives a positively worded Assurance Opinion	Gives a negatively worded Assurance Opinion
Gives a high level of assurance	Gives a moderate level/low level of assurance
Performs very thorough procedures to obtain sufficient and appropriate evidence, including Test of Controls and Substantive Procedures	Performs fewer procedures – mainly, enquiries and analytical procedures

The confidence level of a reasonable assurance report is higher than the confidence level of a limited assurance report. Therefore, there are more regulations and standards applicable to a reasonable assurance assignment. Also, the procedures carried out will be more thorough and the evidence gathered will need to be of a high quality

REASONABLE ASSURANCE ENGAGEMENTS	
Annual Statutory / External Audit	Annual external audit gives the reader reasonable assurance on the truth and fairness of the financial statements. Auditor's Report does not guarantee that the financial statements are correct, but that they are true and fair within reasonable level.
LIMITED ASSURANCE ENGAGEMENTS	
Review of Financial Statements /Review of Interim Financial Statements	A limited assurance engagement involves the use of primarily inquiry and analytical procedures to obtain sufficient appropriate evidence.
Prospective Financial Statements	An assurance practitioner may be asked to report on financial forecast that has been prepared by a company. It is not possible to perform a reasonable assurance on information about the future. So, it will I provide limited assurance.
Internal Controls	A limited assurance engagement may report on information prepared by the company about its internal controls or internal control system

D) Elements of Assurance Engagements

a) Existence of **THREE-PARTY RELATIONSHIP** which involves:
   1) The Intended Users
   2) The Responsible Party
   3) The Practitioner

b) SUBJECT MATTER

This is the data to be verified which has been prepared by the responsible party. It can be any form of Financial and Non-Financial performance, processes or behaviour.

A subject matter may take a variety of forms. A clear understanding of the subject matter is essential when the practitioner performs an assurance engagement. This includes understanding why the users are interested in the subject matter and their relationship to it. such an understanding affects whether the subject matter of the engagement is appropriate for the purpose and whether the users would understand the assurance conclusion in an appropriate context. Therefore, the practitioner considers whether the subject matter has been defined appropriately and whether the approach to be taken is suitable when accepting an engagement.

The practitioner will consider whether he or she possesses the relevant skills and competences before agreeing to undertake an assurance engagement on the subject matter. Subject matters have different characteristics, including the degree to which information about them is qualitative versus quantitative, objective versus subjective, historical versus prospective and whether it relates to a point in time or covers a period. When undertaking an assurance engagement, therefore, the practitioner considers whether the subject matter is identifiable and capable of being consistently evaluated or measured against criteria; and the availability and the persuasiveness of evidence.

c) **CRITERIA**

The criteria is the measurement based on which the subject matter is evaluated in order to reach an opinion. These criteria will depend on the nature of the subject matter. Following characteristics should be there.

1) **Relevance** – Relevant criteria contribute to conclusions that assist decision making by the intended users
2) **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, or where it supports the fair description of systems and controls in operation.
3) **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.
4) **Neutrality** - Neutral criteria contribute to conclusions that are Free from bias.
5) **Understandability** - Understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

d) Sufficient appropriate **EVIDENCE** collected as a result of examination

Sufficient and appropriate evidence needs to be gathered to support the opinion on the subject matter.

e) Expression of opinion in the form of a **WRITTEN REPORT** issued by the practitioner providing assurance of:

Higher degree as under reasonable assurance engagements

Moderate degree as under limited assurance engagements.

E) Key Aspects and Requirements when Accepting and Managing Assurance Engagements.

STEP	ACTIVITY
Step 01	**Ethical and Quality Control Requirements** The Practitioner should. a) Comply with the requirements of Code of Ethics issued by CA Sri Lanka and b) Implement Quality Control Procedures.
Step 02	**Engagement Acceptance and Continuance** The Practitioner should consider, a) Whether the subject matter is the responsibility of a party other than the intended users or the practitioner b) These persons who are to perform the engagement collectively possess the necessary professional competence
Step 03	**Planning and Performing Engagement** Main factors to be considered when Planning and Performing the Engagement a) The Terms of the Engagement b) The characteristics of the Subject Matter and the identified Criteria c) Practitioners understanding of the entity and its environment d) Identification of Intended Users and their Needs
Step 04	**Assessing the appropriateness of the subject matter** An appropriate subject matter, a) Should be identifiable b) Can be evaluated against the identified criteria c) Sufficient and Appropriate Audit Evidence can be obtained regarding the subject matter
Step 05	**Assessing the suitability of the Criteria** The Practitioner should have Preliminary knowledge of the Engagement that the criteria to be used suitable
Step 06	**Materiality and Assurance Engagement Risk** The Practitioner should consider the materiality and the assurance engagement risk when planning and performing an Assurance Engagement
Step 07	**Obtaining Evidence & Documentation** The Practitioner should obtain sufficient and appropriate audit evidence on which to base the conclusion. For that, the practitioner should, a) Obtain an understanding on the subject matter b) Assess the risk of material misstatements c) Response to assessed risk d) Evaluate the sufficiency and appropriateness of Audit Evidence
Step 08	**Preparation of Assurance Report** The Practitioner should conclude whether sufficient appropriate evidence has been obtained to support the conclusion expressed in the Assurance Report The Assurance Report should be in Writing and should contain a clear expression of the Practitioners conclusion about the subject matter information

2. RELATED SERVICES

Related Services also can be divided into two segments

a) Non-Assurance Services
b) Other Services

Non- Assurance Services

The Practitioner may carry out services for a client which are not assurance engagements but governed by the regulations issued by CA Sri Lanka. Some of the related service provided by the practitioner are listed below.

1) Agreed Upon Procedures

   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 any appropriate third parties have agreed and to report on factual findings. As the auditor simply provides a report of the factual findings of agreed-upon procedures, no assurance is expressed. Instead users of the report assess for themselves the procedures and findings reported by the auditor and draw their own conclusions from the auditor's work.

2) Engagements to compile financial statements

   The Practitioner obtaining all the information from the client and prepare/compile the financial statements on behalf of the client. In this context, the Practitioner is performing the role of an Accountant.

Other Services

Practitioner may carry out services for a client which are not assurance engagements as well as not governed by the standards issued by CA Sri Lanka. Some of the related services provided by practitioners are listed below.

a) Tax Services
b) Consultancy Services