DEFINITION
Assurance engagement (or services) 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.

Assurance refers to the auditor’s satisfaction as to the reliability of an assertion being made by one party for use by another party.

BASIC COMPARISON OF ASSURANCE AND NON-ASSURANCE

<table>
<thead>
<tr>
<th>Assurance engagement</th>
<th>Non-assurance engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Output: assurance in the form of an opinion</td>
<td>✓ Output: recommendation on how to use the information</td>
</tr>
<tr>
<td>✓ Designed to improve the quality or enhance credibility of the subject matter</td>
<td>✓ Designed to provide comments, suggestions or recommendations on how to use the information</td>
</tr>
<tr>
<td>✓ Three-party contract</td>
<td>✓ Two-party contract</td>
</tr>
<tr>
<td>✓ Should be provided by independent professional</td>
<td>✓ Independence is not required</td>
</tr>
<tr>
<td>✓ Common examples include a. Audit; b. review; and c. examination of prospective financial information</td>
<td>✓ Common examples include a. agreed-upon procedures; b. compilation; c. preparation of tax returns; and d. management advisory services</td>
</tr>
</tbody>
</table>

ELEMENTS OF ASSURANCE ENGAGEMENT

The following are the elements of an assurance engagement:
A. A three party relationship involving a practitioner, a responsible party, and intended users;
B. An appropriate subject matter;
C. Suitable criteria;
D. Sufficient appropriate evidence; and
E. A written assurance report in the form appropriate to a reasonable assurance engagement or a limited assurance engagement.

A. Three-Party Relationship:
An assurance engagement involves three separate parties, namely
a. The practitioner
   • is broader than the term auditor
   • must be independent
   • is governed by ethical requirements (i.e. professional competence) regarding the conduct of the engagements
   • may use the work of experts
   • responsible for determining the nature, timing or extent of procedures required by the engagement

b. The responsible party
   • is the person/s responsible to the subject matter, the subject matter information, or both
   • may or may not be the engaging party to the practitioner
   • may or may not be from the same organization with the intended users
   • may be one of the intended user

c. The intended users
   • are the person/s for whom the practitioner prepares the assurance report.
   • in case of broad range of interests by the readers of assurance report, intended user may be limited to major stockholders with significant and common interests.
B. Appropriate Subject Matter

Subject matter is the nature of the assertion the practitioner gathers sufficient evidence. On the other hand, subject matter information pertains to the outcome of the evaluation or measurement of the subject matter. It is for which the practitioner gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report.

Characteristics of a subject matter to be considered appropriate

An appropriate subject matter is:

a. Identifiable, and capable of consistent evaluation or measurement against the identified criteria; and

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.

The subject matter, and subject matter information, of an assurance engagement can take many forms. Table below summarizes illustration given in the Philippine Framework for Assurance Engagements.

<table>
<thead>
<tr>
<th>Form</th>
<th>Subject matter</th>
<th>Subject matter information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance or conditions</td>
<td>historical or prospective financial position, financial performance and cash flows</td>
<td>recognition, measurement, presentation and disclosure represented in financial statements</td>
</tr>
<tr>
<td>Non-financial performance or conditions</td>
<td>performance of an entity</td>
<td>key indicators of efficiency and effectiveness</td>
</tr>
<tr>
<td>Physical characteristics</td>
<td>capacity of a facility</td>
<td>specifications document</td>
</tr>
<tr>
<td>Systems and processes</td>
<td>an entity’s internal control or IT system</td>
<td>assertion about effectiveness</td>
</tr>
<tr>
<td>Behavior</td>
<td>corporate governance, compliance with regulation, human resource practices</td>
<td>statement of compliance or a statement of effectiveness</td>
</tr>
</tbody>
</table>

C. Criteria

The benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria may be:

a. Formal
b. Less formal
c. Established
d. Specifically developed

Characteristics of suitable criteria

a. Relevance - relevant criteria contribute to conclusions that assist decision-making by the intended users.

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.

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.

d. Neutrality - contribute to conclusions that are free from bias.

e. Understandability - contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

Communication of criteria to intended users

Criteria need to be available to the intended users to allow them to understand how the subject matter has been evaluated or measured. Criteria are made available to the intended users in one or more of the following ways:

a. Publicly.

b. Through inclusion in a clear manner in the presentation of the subject matter information.

c. Through inclusion in a clear manner in the assurance report.

d. By general understanding, for example the criterion for measuring time in hours and minutes.

D. Sufficient Appropriate Evidence:

The practitioner performs the engagement with an attitude of professional skepticism to obtain sufficient appropriate evidence about whether the subject matter information is free from material misstatement.
Consideration when planning and performing the engagement
The following are practitioner’s consideration when planning and performing the engagement (determining the nature, timing and extent of evidence-gathering procedures).

a. Quantity (sufficiency) and quality (appropriateness) of evidence
b. Materiality
c. Assurance engagement risk
d. Cost-benefit consideration
e. Professional skepticism

a. Sufficiency and appropriateness
Two characteristics must be possessed by the evidence to be gathered in an assurance engagement. These are sufficiency and appropriateness. 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.

What is sufficient and appropriate shall be determined by the practitioner using his or her professional judgment and by exercising professional skepticism.

b. Materiality
Materiality 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.

c. Assurance engagement risk
Assurance engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated.

Components of assurance engagement risk
1. The risk that the subject matter information is materially misstated:
   a. Inherent risk: the susceptibility of the subject matter information to a material misstatement, assuming that there are no related controls
   b. Control risk: the risk that a material misstatement that could occur will not be prevented, or detected and corrected, on a timely basis by related internal controls
2. Detection risk: the risk that the practitioner will not detect a material misstatement that exists.

d. Cost-benefit Consideration
In performing evidence-gathering procedures, the practitioner is expected to observe cost-benefit consideration. This means that “the benefits that will be derived from obtaining the evidence should exceed the cost of obtaining it”.

e. Professional Skepticism
The practitioner plans and performs an assurance engagement with an attitude of professional skepticism recognizing that circumstances may exist that cause the subject matter information to be materially misstated.

This 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.

Generalizations about reliability of evidence may be useful.
1. Evidence is more reliable when it is obtained from independent sources outside the entity.
2. Evidence that is generated internally is more reliable when the related controls are effective.
3. 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).
4. 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).
5. Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.

E. Written Assurance Report
The practitioner provides a written report containing a conclusion or an opinion that conveys the assurance obtained about the subject matter information.

Types of Opinion
Levels and forms of assurance
The levels (high or moderate) and forms (positive or negative) of assurance provided by the practitioner are dependent on the type of assurance engagement being rendered.

The following are types of assurance engagement as to level of assurance provided:
1. **Reasonable assurance engagement** - the 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. Such form conveys “reasonable assurance”.
2. **Limited assurance engagement** - the objective is a reduction in assurance engagement risk to a level that is acceptable in circumstances of the engagement, but where the risk is greater than for a reasonable assurance engagement, as a basis for a *negative form* of expression of the practitioner’s conclusion. This form conveys “limited assurance”.

Moreover, the following are types of assurance engagement as to structure:
**A. Attestation engagements**
Attestation engagement is an engagement in which a practitioner is engaged to issue, or does issue, a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party. Moreover, attestation engagement may further be classified depending on the availability of the assertions made by the responsible party to intended users.
1. **Assertion-based engagements** are assurance engagements that 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 to the intended users*.
2. **Direct reporting engagements** are assurance engagements that 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 in the assurance reports.

**B. Direct engagements**
Direct engagement is a residual definition of assurance engagement as to structure. Also, when reporting is made to users, the practitioner classifies the engagement a direct reporting engagements

**STANDARDS GOVERNING PROFESSIONAL SERVICES BY CPAs**

<table>
<thead>
<tr>
<th>Standards</th>
<th>Related Practice Statements</th>
<th>Application of Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippine Standards on Auditing (PSAs)</td>
<td>Philippine Auditing Practice Statements (PAPSSs)</td>
<td>Audit of historical financial information</td>
</tr>
<tr>
<td>Philippine Standards on Review Engagements (PSREs)</td>
<td>Philippine Review Engagement Practice Statements (PREPSs)</td>
<td>Review of historical financial information</td>
</tr>
<tr>
<td>Philippine Standards on Assurance Engagements (PSAEs)</td>
<td>Philippine Assurance Engagement Practice Statements (PAEPSs)</td>
<td>Assurance engagements dealing with subject matter other than historical financial information</td>
</tr>
<tr>
<td>Philippine Standards on Related Services (PSRSs)</td>
<td>Philippine Related Services Practice Statements (PREPSs)</td>
<td>Agreed-upon procedures information and other related services engagements as specified by AASC</td>
</tr>
<tr>
<td>Philippine Standards on Quality Control (PSQCs)</td>
<td></td>
<td>All services falling under the AASCs Engagement Standards</td>
</tr>
</tbody>
</table>
### Summary of Services Performed by Practitioners

<table>
<thead>
<tr>
<th>Assurance engagements</th>
<th>Non-assurance engagements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audit</strong> (e.g. audit of FS)</td>
<td><strong>Review</strong> (e.g. review of FS)</td>
</tr>
<tr>
<td><strong>References</strong></td>
<td>PSAs and PAPS</td>
</tr>
<tr>
<td><strong>Objective</strong></td>
<td>Express an opinion whether the FS are prepared in accordance with PFRS</td>
</tr>
<tr>
<td><strong>Ethical requirement</strong></td>
<td>Independence plus fundamental ethical principles</td>
</tr>
<tr>
<td><strong>Level of assurance</strong></td>
<td>High but not absolute (reasonable)</td>
</tr>
<tr>
<td><strong>Procedures are determined by</strong></td>
<td>Exclusively by the auditor</td>
</tr>
<tr>
<td><strong>Availability of report</strong></td>
<td>To all users</td>
</tr>
</tbody>
</table>

### Illustrative Quizzers

1. The Philippine Framework for Assurance Engagements
   - A. Contains basic principles, essential procedures and related guidance for the performance of assurance engagements.
   - B. Defines and describes the elements and objectives of an assurance engagement, and identifies engagements to which PSAs, PSREs, and PSAEs apply.
   - C. Provides a frame of reference for CPAs in public practice when performing audits, reviews, and compilations of historical financial information.
   - D. Establishes standards and provides procedural requirements for the performance of assurance engagements.

2. The Philippine Standards on Assurance Engagements (PSAEs) are to be applied in
   - A. Assurance engagements dealing with subject matters other than historical financial information.
   - B. Compilation engagements and agreements to apply agreed-upon procedures to information.
   - C. The audit or review of historical financial information.
   - D. Assurance engagements dealing with historical financial information.

3. Practitioners who perform assurance engagements is governed by the following, except
   - A. Code of ethics for Professional Accountants in the Philippines
   - B. The Framework to Assurance Engagements
   - C. Philippine Standards on Quality Control
   - D. Philippine Financial Reporting Standards

4. Assurance services can be best described as
   - A. Is broader than attestation but lesser in scope than audit
   - B. Processes that measures and communicates financial data to intended users
   - C. Independent professional services intended to enhance the credibility of information to meet the needs of an intended user
   - D. Engagement designed to enable an independent practitioner to express an opinion as to the fairness of historical financial information

5. The independent auditor lends credibility to client financial statements by
   - A. Stating in the auditor’s management letter that the examination was made in accordance with PSAs
   - B. Maintaining a clear-cut distinction between the management’s and the auditor’s representations
   - C. Attaching an auditor’s opinion to the client’s FSs
   - D. Testifying under oath about client financial information

6. It refers to the level of auditor’s satisfaction as to the reliability of an assertion being made by one party for use by another party.
   - A. Tolerable level
   - B. Assurance level
7. Assurance engagement include the following, except
   A. An engagement conducted to provide a high level of assurance that the subject matter conforms in all material respects with identified suitable criteria.
   B. An engagement conducted to provide a moderate level of assurance that the subject matter is plausible in the circumstances.
   C. An engagement in accordance with the Philippine Standard on Assurance Engagement(s) issued by the Auditing and Assurance Standard Council as approved by the Board of Accountancy/Professional Regulation Commission.
   D. An engagement to perform agreed-upon procedures.

8. The single feature that most clearly distinguishes auditing, attestation, and assurance is
   A. Type of service
   B. Scope of services
   C. CPA's approach to the service
   D. Training required to perform the service

9. Which of the following criteria is unique to the independent auditor's attest function?
   A. General competence
   B. Familiarity with the particular industry of each client
   C. Due professional care
   D. Independence

10. The primary goal of the CPA in performing the attest function is to
    A. Detect fraud
    B. Examine individual transactions so that the auditor may certify as to their validity
    C. Determine whether the client's assertions are fairly stated
    D. Assure the consistent application of correct accounting procedures

11. The three types of attestation services are:
    A. Audits, review, and compilations
    B. Audits, compilations, and other attestation services
    C. Reviews, compilations, and other attestation services
    D. Audits, reviews, and other attestation services

12. Not all engagements performed by professional accountants are assurance engagements. Other engagements frequently performed by professional accountants that are not assurance engagements include the following, except
    A. Agreed-upon procedures
    B. Compilation of financial or other information
    C. Management consulting
    D. Examination of prospective financial information

13. Which of the following is not an assurance engagement?
    A. Audit of prospective financial statements
    B. Review of interim historical financial statements
    C. Comprehensive audit
    D. Preparation of tax returns that use estimates

14. Which statement does not accurately describe an assurance engagement?
    A. The objective of an assurance engagement is for a professional accountant to evaluate or measure a subject matter that is the responsibility of another party against identified suitable criteria, and to express a conclusion that provides the intended user with a level of assurance about that subject matter
    B. Not all engagements performed by professional accountants are assurance engagements
    C. A particular engagement, to be an assurance engagement, it depends upon whether it exhibits all the following elements: a two-party relationship, a subject matter, suitable criteria, and a conclusion
    D. An engagement in form of agreed-upon procedures result in the expression of factual findings

15. A practitioner should accept an assurance engagement only if
    A. The subject matter is in the form of financial information.
    B. The criteria to be used are not available to the intended users.
    C. The practitioner's conclusion is to be contained in a written report.
    D. The subject matter is the responsibility of either the intended users or the practitioner.
16. All, except one, are elements of an assurance engagement.
   A. Subject matter
   B. Sufficient appropriate evidence
   C. Written report
   D. Independence

17. The following relates to intended users, choose the exception:
   A. Intended users are the person/s for whom the practitioner prepares the assurance report
   B. Intended users may be identified by agreement between the practitioner and the responsible party or engaging party, or by law
   C. Intended users may include either the practitioner or the responsible party.
   D. In case of broad range of interests by the readers of assurance report, intended user may be limited to major stockholders with significant and common interests.

18. The subject matter of an assurance engagement may include
   A. Financial information
   B. Compliance with regulation
   C. Internal controls
   D. All of these

19. Which of the following is not suitable criteria in the context of audit?
   A. IFRS
   B. PFRS for SME
   C. PSA
   D. GAAP

20. The following cannot be a suitable criteria for an assurance engagement, except?
   A. Practitioner’s own expectations
   B. Practitioner’s judgment
   C. Practitioner’s experience
   D. Agreement between the responsible party and the intended users

21. Characteristics of suitable criteria do not include
   A. Neutrality
   B. Understandability
   C. Comparability
   D. Relevance

22. Which is incorrect concerning evidence?
   A. The higher the risk of material misstatement involved, the more is required.
   B. The better the quality, the less is required.
   C. The volume of evidence can compensate for its poor quality.
   D. The reliability of evidence is influenced by its source and its nature.

23. Select the incorrect statement from the following generalization on the reliability of evidence.
   A. Evidence is more reliable when it is obtained from independent sources outside the entity.
   B. Evidence that is generated internally is more reliable when the related controls are effective.
   C. Evidence obtained directly by the practitioner is more reliable than when obtained indirectly, even if the source is not competent.
   D. Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles.

24. Professional skepticism dictates that when management makes a statement to the auditors, the auditors should
   A. Disregard the statement because it ranks low of the evidence quality scale
   B. Corroborate the evidence with other supporting documentation whenever possible
   C. Require that the statement be put in writing
   D. Believe the statement in order to maintain the professional client-auditor relationship

25. Which of the following statements exemplifies positive assurance?
   A. “In our opinion internal control is effective, in all material aspects, based on XYZ criteria.”
   B. “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.”
   C. Both A and B
26. Which of the following statements correctly defines the term **reasonable assurance**?
   A. A substantial level of assurance to allow an auditor to detect a material misstatement.
   B. A significant level of assurance to allow an auditor to detect a material misstatement.
   C. An absolute level of assurance to allow an auditor to detect a material misstatement.
   D. A high, but not absolute, level of assurance to allow an auditor to detect a material misstatement.

27. Independence is required for which of the following types of engagements?

<table>
<thead>
<tr>
<th>Compilations</th>
<th>Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>B. Yes</td>
<td>No</td>
</tr>
<tr>
<td>C. No</td>
<td>Yes</td>
</tr>
<tr>
<td>D. No</td>
<td>No</td>
</tr>
</tbody>
</table>

28. Indicate the level of assurance provided by audit and related services.

<table>
<thead>
<tr>
<th>Audit</th>
<th>Review</th>
<th>Agreed-upon procedures</th>
<th>Compilation</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>Moderate</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>High</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Negative</td>
<td>Moderate</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Absolute</td>
<td>High</td>
<td>Limited</td>
<td>None</td>
</tr>
</tbody>
</table>

29. There is a broad range of engagements to provide a high or moderate level of assurance. Such engagements may include

I. Engagements to report on a broad range of subject matters covering financial and non-financial information
II. Attest and direct reporting engagements
III. Engagements to report internally and externally
IV. Engagements in the private and public sector

A. II only
B. I and II only
C. I, II and III
D. I, II, III and IV

30. These refers to an assurance engagements in which 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 to the intended users.

A. Assertion-based engagement
B. Direct reporting engagement
C. Indirect reporting engagement
D. Reasonable assurance engagement

“**Sufficient appropriate preparation will lead to the attainment of our objectives.**”

--- END OF HANDOUTS ---