

# ISAE 3000 (revised) – Assurance Engagements Other than Audits or Review of Historical Financial Information

Presentation by:

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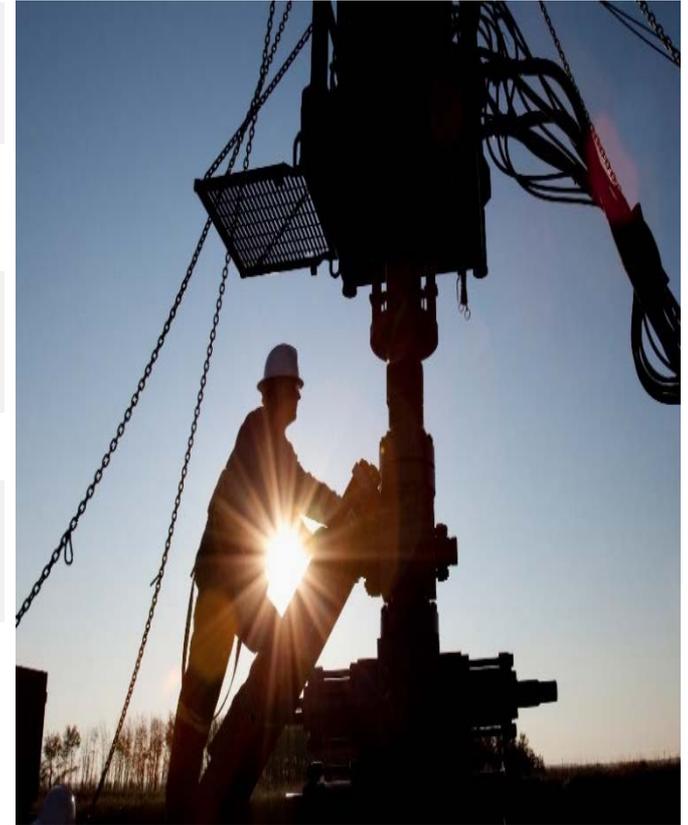
# Agenda



**Introduction**

**5 Elements of assurance engagements**

**Q&A**



This ISAE covers assurance engagements other than audits or reviews of historical financial information.

Not all engagements performed by practitioners are assurance engagements, e.g.

- a) Engagements covered by International Standards on Related Services (ISRS), such as agreed-upon procedure and compilation engagements;
- b) The preparation of tax returns where no assurance conclusion is expressed; and
- c) Consulting (or advisory) engagements, such as management and tax consulting.

# Overview of IFAC standards



<b>IFAC (IRBA) Code of Ethics and International Standard in Quality Control (ISQC 1)</b>			
<b>International Framework for Assurance Engagements</b>			
Audits and Reviews of Historical Financial Information		Assurance Engagements other than Audits or Reviews of Historical Financial Information	Related Services
<b>ISA</b> International Standards on Auditing	<b>ISRE</b> International Standards on Review Engagements	<b>ISAE</b> International Standards on Assurance Engagements	<b>ISRS</b> International Standards on Related Services
Reasonable Assurance	Limited Assurance	Reasonable or Limited Assurance	No Assurance

# Going beyond the financial statements



**“Auditors can rebuild trust in the financial markets through assurance beyond financial statements.”**

# Overview



## Measures of business performance include:

- **Technical KPIs**
- **Social KPIs (e.g.) union membership**
- **Operational KPIs (e.g.) Complaints; circulation numbers**
- **Financial related KPIs in terms of regulatory returns**

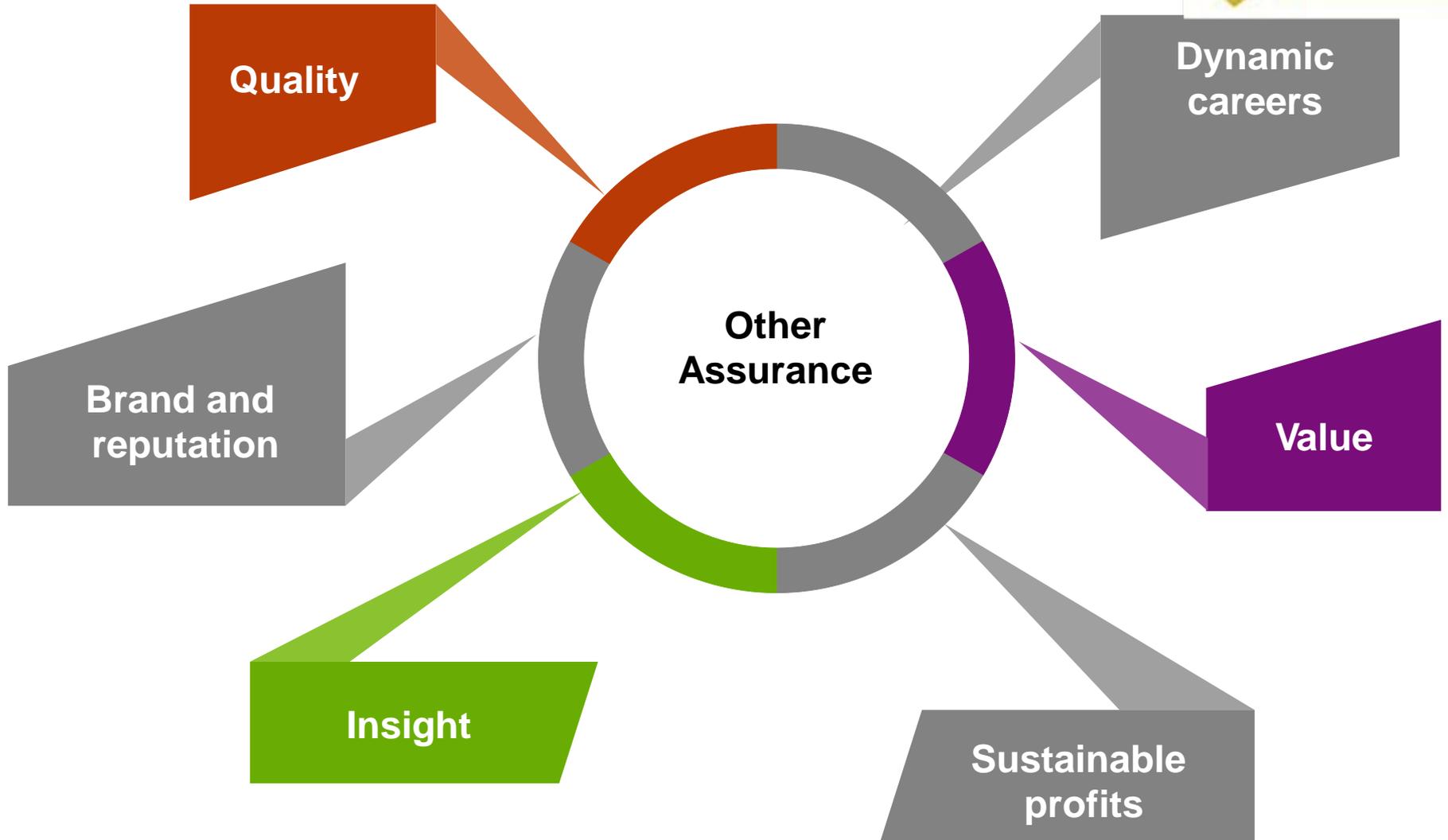
## Used to

- **Evaluate success**
- **Manage investment**
- **Plan strategy**
- **Measure rewards**
- **Identify performance improvement opportunities**
- **Demonstrate level of performance**

## Manage risk of inappropriate disclosure & decisions:

- a) Inappropriate investment/ divestment decisions**
- b) Misleading advice from analysts**
- c) Reputation damage**
- d) Litigation**

# Benefits of other assurance



# Examples of engagements



- a) Reasonable assurance over the actual number of old people qualifying for a government support
- b) Scrutinizing for polls at a public company AGM
- c) Assurance on union membership numbers
- d) Assurance over the design and operating effectiveness of controls in relation to stated control objectives
- e) Limited assurance regarding compliance by medical schemes with various Sections of the Medical Scheme

# Examples of engagements -Cont'd

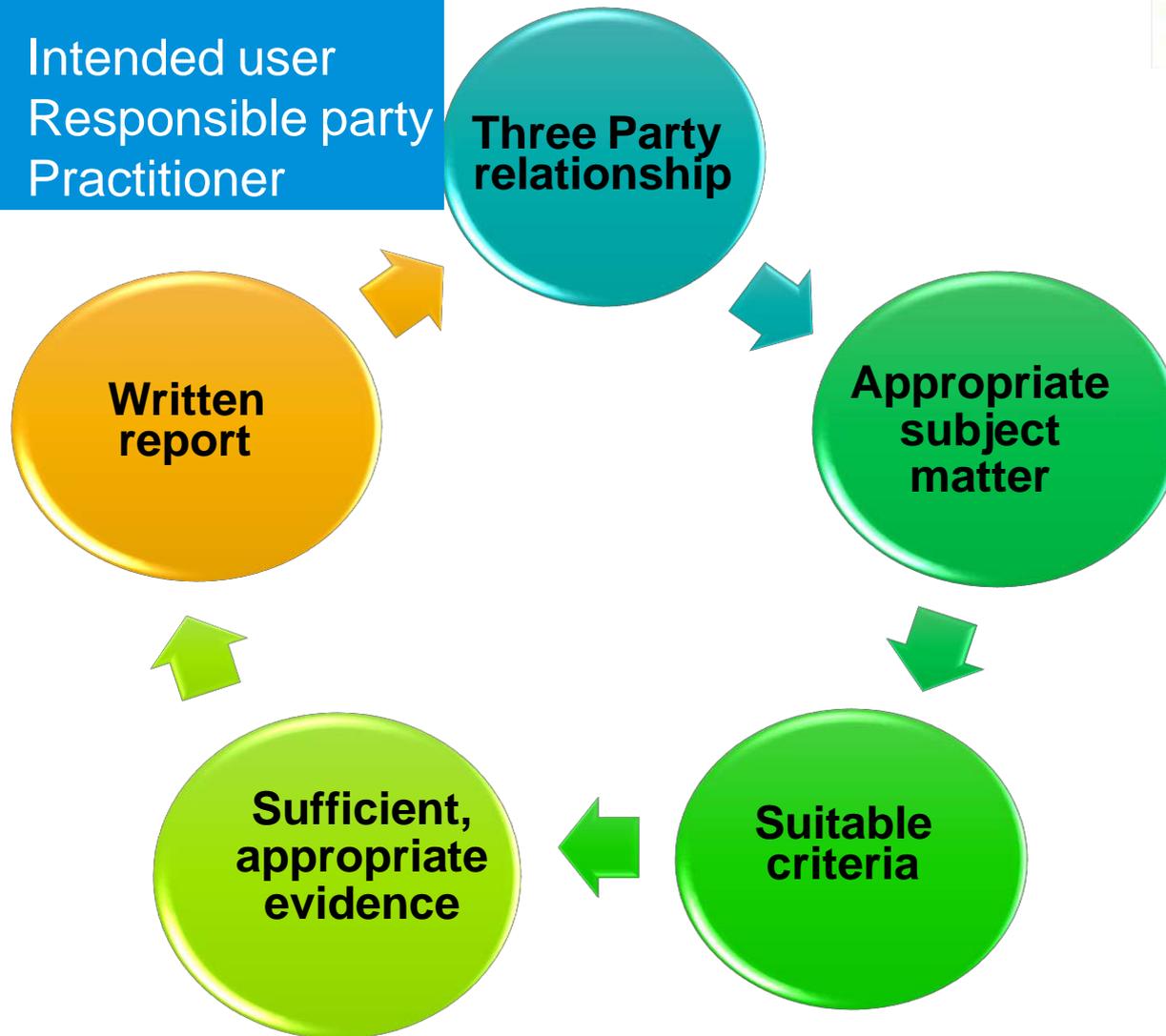


- f) Assurance over the quantum of carbon savings achieved for its clients through the services provided to them during the previous year.
- g) Assurance over the rate of return earned in each of the last five years to lend credibility to management claims in prospectus seeking additional funds
- h) Assurance over the energy consumption figures relative to thresholds for production as required by local legislation

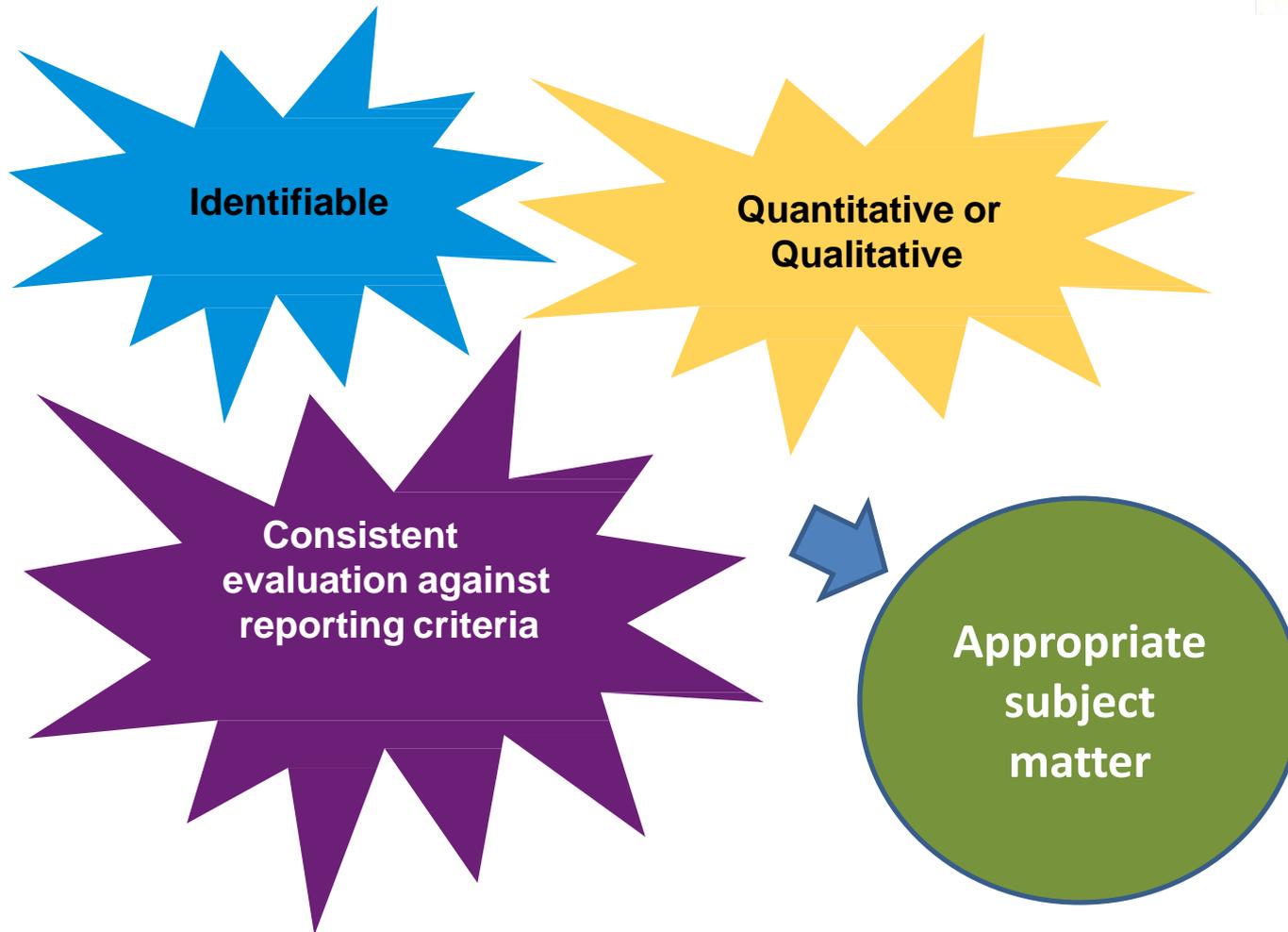
# 5 Elements of Assurance Engagements



1. Intended user
2. Responsible party
3. Practitioner



# Subject Matter



# Criteria



- Identified by law or regulation
- Internally developed
- Specifically designed to meet need of specified intended users

- Relevance
- Completeness
- Reliability
- Neutrality
- Understandability

- Publically available & generally understood
- Properly described and made available to users

**Suitable  
criteria**

# Levels of assurance



**Reasonable assurance** is high but not absolute assurance. The nature and extent of our work enables us to express a reasonable assurance conclusion (like an audit opinion), for example that a newspaper's circulation data has been prepared, in all material respects, in accordance with the regulator's calculation methodology.

**Limited assurance** is not a fixed, clearly defined level of assurance, but instead stands on a sliding scale. There is a range of possible levels of evidence to support a limited assurance conclusion which is still meaningful.

Thus limited assurance required more judgment in respect of:

- Whether the level of assurance provided is meaningful to the intended users.
- The nature and extent of procedures performed, and
- Whether the evidence obtained is sufficient.

# Levels of assurance



- The quality of the information needs to be of the same standard irrespective of level of assurance
- Responsibility of the preparer to ensure it is all accurate, complete, etc.
- Amount of work done in limited assurance is less than reasonable
  - i. May be more enquiries and analytical procedures (where possible)
  - ii. Smaller samples selected
  - iii. Process understanding, but may not test controls
- Where client may not be ready for assurance – can do a “readiness review”

# Overview of phases



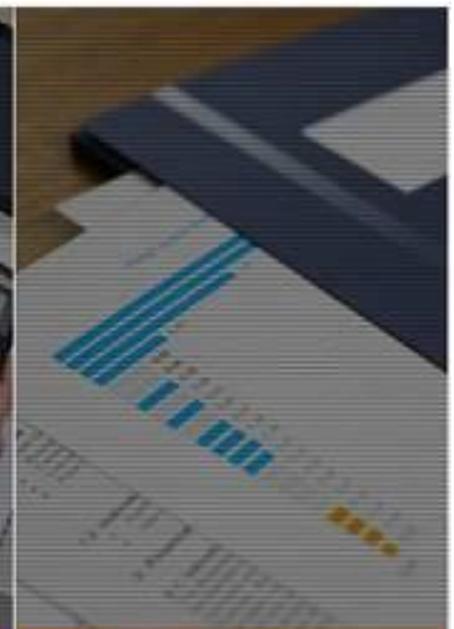
**1. Engagement  
Set-Up**



**2. Planning and Risk  
Assessment**



**3. Testing**



**4. Reporting**

# Planning: Risk assessment

**Client and engagement  
acceptance**

**Report level**

**Fraud  
considerations**

**Issues specific  
to subject matter**

# Meaning of Materiality

Defined as “misstatement, including omissions, are considered material, when individually or in aggregate could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information.”

- Unique to the circumstances of the engagement and subject matter
- Considered when planning and performing – nature, timing and extent of procedures
- Evaluating the subject matter
- Not affected by level of assurance
- Professional judgement
- Context of qualitative factors and quantitative factors
- More complexity and subjectivity in materiality for non financial KPIs than financial statements

# Materiality Factors



## Quantitative - Threshold:

- Sector reported on
- Relative importance of KPIs in respective context
- Relationship of reported performance to target/ goals
- Reported trend over time

## Qualitative – Factors

- Misstatement of facts that may reasonably be considered important for reflecting the significant economic, environmental and social impacts of an organisation,
- Contains an unsubstantiated generalisation,
- Represents a selective and biased way of reporting,
- Contains a misrepresentation of significant trends or key performance indicators

# Testing



- The testing activities in an assurance engagement are very similar to an audit engagement.
- Non-quantitative subject matter will be more common in an assurance engagement and will require substantive procedures for text contained in subject matter.
- The nature, timing and extent of testing procedures will usually differ depending on whether the engagement is structured as a limited or reasonable assurance engagement

Control  
Evaluation

Substantive  
Testing



# Example

Network Company A wishes to include the following statement in their advertising campaign: “**Fastest growing data network**”

This is based on the following:

- a) having access to the largest number of base stations
- b) the largest customer base growth
- c) data revenue growth.

Based on y-o-y growth rates for the 12 months ending

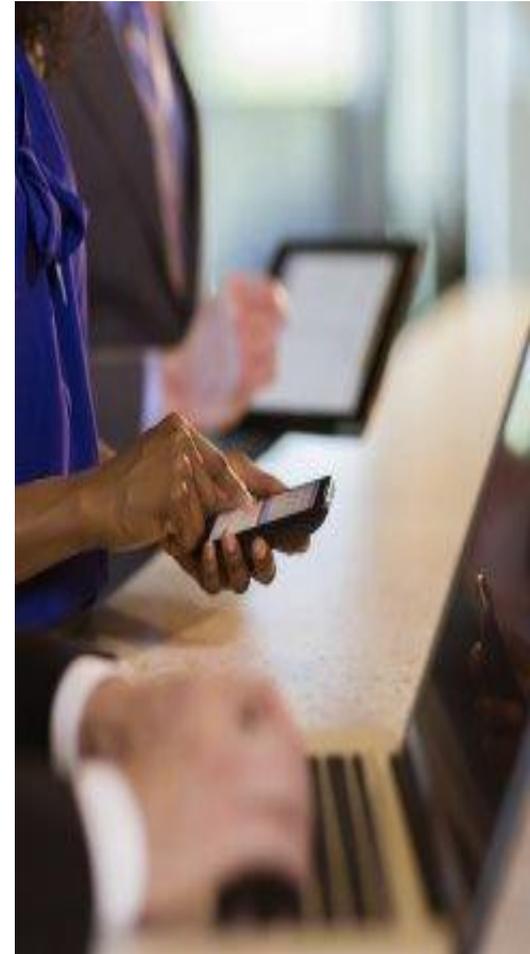
31 March 2016, Company A is far ahead of competition:

- \* Competitor B: +7.0%
- \* Competitor C: +23.4%
- \* Competitor D: +50.6%
- \* Network Company A: +72.1%

The client wants an independent substantiation of this claim in case stakeholders question the validity of the claim. Would you accept the above engagement? Provide your reasoning to support your answer, taking into account aspects of subject matter and criteria.

# Network case study: approach

1. What risks have you identified in relation to the network assignment?
2. Would you consider materiality?
3. Would you consider testing controls?
4. Identify the procedures that you would perform to obtain sufficient evidence that the assertion Fastest growing data network is accurate.



# Engaging with clients – conversation starters



## **Conversation starters on assurance:**

1. Do you feel that your investors and other stakeholders are looking to more than just your financial statements for information about the health of your company?
2. Is there an area of your business that investors are particularly focused on?
3. How are you providing assurance to your investors over non-financial information?
4. Is there information that you use internally that you think would better help investors understand your business and its prospects?
5. Is there an area of your business that investors are particularly focused on that would benefit from external assurance?

## **Conversation starters on Assurance over KPIs:**

1. What are your most important KPIs in running your business?
2. Do you share those KPIs with investors through quarterly results, the annual report, investor presentations or by other means?
3. How do the KPIs you have in place compare to your competitors?
4. How confident is the Board that all KPIs reported externally are accurate and comparable?
5. Would it be valuable for your investors and other stakeholders to have [insert KPI] assured?
6. Do you believe assured KPIs would help provide more meaningful and reliable information to the investor community?

# Reporting

# Reporting

- Evaluate differences noted in respect of materiality that may need client to process adjustments
- Evaluate sufficiency and appropriateness of evidence obtained
- Consider effect of modifications to the audit report due to uncorrected misstatements
- Written representations required
- Read and review the Report— for material inconsistencies and to ensure that subject matter & criteria is appropriately reported and disclosed and identified
- Consider effects of subsequent events on subject matter – up to date of assurance report





# Required Elements

- Title – indicating independent assurance report
- Addressee
- Subject Matter
- Level of assurance
- Criteria
- Competencies of practitioner
- If criteria is designed for a specific purpose – statement to this effect and that subject matter information may not be suitable for another purpose
- Identification of responsible party and their and our responsibilities
- Compliance to ISAE 3000
- Reference to the application of ISQC 1 quality control standard by the firm
- Reference to compliance v Code
- Significant inherent limitations
- Summary of work performed
- Limited assurance – a statement that procedures performed is less than in reasonable and therefore assurance level is lower
- Any restriction (use/liability)
- Other matters (comparability/ information on website)
- Any limitation of scope and/or details of any qualification
- Conclusion
- Signature
- Date, Location

# Interactive Session

