Types of assurance engagements

MODULE 1 | 1.3 | STUDENT COMPANION

Organisations now report far more than financial statements, and each kind of report can carry its own assurance. A **financial statement audit** gives reasonable assurance but has built-in limits. **Audits of specialised areas** and **reviews** cover other historical financial information. **Other assurance engagements** cover non-financial reports, information about the future, systems and processes, behaviour such as compliance, and the performance of an activity.

The main types at a glance

Type	Usual subject matter	Standards that apply	Usual level of assurance
Audit of financial statements	General purpose financial statements	ISA / ASA 200 to 700 series	Reasonable
Audits of specialised areas	Special purpose, single or summary statements; one element or account	ISA / ASA 800 series	Reasonable
Reviews	Historical financial information, e.g. a half-year report	ISRE / ASRE 2400 and 2410; ASRE 2415 in Australia	Limited
Sustainability reports	Sustainability information, including greenhouse gas emissions	ISSA 5000; ASSA 5000 in Australia	Limited or reasonable
Other non-financial reports	Integrated reports, business performance measures, water accounts	ISAE / ASAE 3000; ASAE 3610 for water	Reasonable or limited
Information about the future	A forecast, e.g. in a fundraising document	ISAE 3400; ASAE 3450 in Australia	Limited on assumptions; opinion on preparation
Systems and processes	Controls, including at service organisations; continuous assurance	ISAE / ASAE 3402; ASAE 3150 in Australia	Reasonable or limited
Aspects of behaviour	Compliance with law, contract, grant or licence; governance	ISAE 3000; ASAE 3100 in Australia	Reasonable or limited
Performance of an activity	Economy, efficiency and effectiveness, often of public programs	ASAE 3500 in Australia	Reasonable or limited

Audits of financial statements

The auditor aims for reasonable assurance that the statements, taken as a whole, contain no material misstatement from either fraud or error, and then gives an opinion on whether, in all material respects, they follow the applicable reporting framework. In Australia the Corporations Act (s292, from 1 July 2023) requires **public companies, large proprietary companies, disclosing entities, registered schemes and registrable superannuation entities** to prepare an annual financial report and directors' report; the financial report must

comply with the accounting standards and give a true and fair view, and the auditor must be independent and follow the auditing standards.

Why an audit is not a guarantee

An audit gives reasonable assurance, not a guarantee, because of:

1 The nature of financial reporting

Preparing statements takes judgement, from choosing accounting policies to making estimates. Provisions and fair values often have no single right answer.

2 The nature of audit procedures

The auditor relies heavily on information from the entity, has no legal power to search premises, can demand answers only from the company's own officers, and can be deceived by fraud hidden through forgery or collusion.

3 Reasonable time and cost

Users need the audit finished while the information is still useful, at a sensible cost. That is never a reason to skip a procedure the auditor needs.

Pressure to cut corners comes from three directions, and the auditor must resist all three

- Clients who want to report by a deadline
- Clients reluctant to pay for extra work
- Budgets inside the audit firm

Limits are not excuses. Difficulty, time pressure and cost explain why assurance is reasonable rather than absolute; they never justify leaving out a procedure the auditor needs.

Other historical financial information

Audits of specialised areas give reasonable assurance on historical financial information other than a full set of general purpose statements: special purpose statements prepared for a particular user, such as a lender or regulator; one statement, or one element, account or item within it, such as a schedule of royalties under a licence; and summary statements derived from audited ones. **Reviews** give limited assurance. The best-known is the auditor's review of a listed company's half-year report, but a practitioner who isn't the auditor can also review, say, a smaller company's statements for a lender that wants comfort without a full audit.

Other assurance engagements

Internal audit sits inside the organisation, staffed by employees or outsourced, and answers to those charged with governance. Engagements on controls often concern a **service organisation**, such as a payroll processor, whose report its customers and their auditors can rely on.

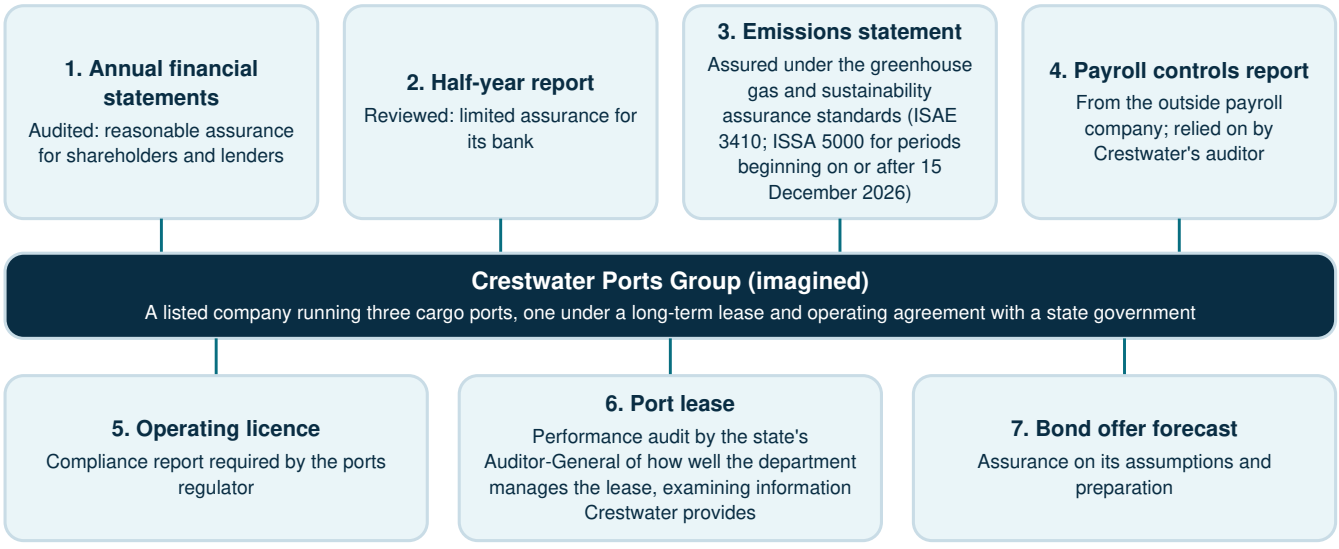
Area	What it covers	Points to remember
Sustainability reports	Sustainability information, including greenhouse gas emissions	A dedicated standard: ISSA 5000 internationally, ASSA 5000 in Australia. ISSA 5000 replaces ISAE 3410, the greenhouse gas standard, for periods beginning on or after 15 December 2026
Other non-financial reports	Integrated reports, business performance measures, water accounting reports	The umbrella standard (ISAE / ASAE 3000) and its companions, such as ASAE 3610 / AWAS 2 for water

Area	What it covers	Points to remember
Information about the future	Forecasts and other prospective financial information, e.g. in a fundraising document	Limited, negatively worded assurance on the assumptions; an opinion on preparation and presentation; a warning that results are likely to differ
Systems and processes	Internal audit; engagements on controls; continuous auditing	Controls engagements cover design only, or design plus operating effectiveness over a period. Continuous auditing needs systems the practitioner can trust
Aspects of behaviour	Compliance with law, regulation, contract, grant or licence; corporate governance practices or statements	A compliance report names its criteria and the period covered
Performance of an activity	Economy, efficiency and effectiveness, especially of public sector programs	Auditors-General report their performance audits to Parliament

The three Es of a performance audit

E	The question	Imagined example: a council library service
Economy	Were the right inputs acquired at the lowest cost?	Did it pay a fair price for books and digital licences?
Efficiency	Was the most output obtained from those inputs?	Loans and program sessions per staff hour, compared with similar councils
Effectiveness	Did the activity achieve its objectives?	Did its early literacy program lift reading levels in the target suburbs?

One organisation, seven kinds of assurance



Different users, subject matter, criteria and levels of assurance, all built on the same Framework

Back to the opening question. Crestwater needs several kinds of assurance because different users rely on different information: shareholders and lenders on the financial statements, its bank on the half-year report, the regulator on licence compliance, investors in its bonds on the forecast, and Parliament on how the state manages the port lease. Each engagement has its own subject matter, criteria and level of assurance.

Practice questions

MODULE 1 | 1.3 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Assurance or not?

Calloway Pryce Accountants (imagined) offers these eight services. Decide whether each is an assurance engagement and, if so, which type and what level of assurance.

Service	Assurance?	Type	Level
(a) Auditing the annual financial report of a large proprietary engineering company			
(b) Preparing a family trust's annual financial statements from its bookkeeping records			
(c) Reviewing the half-year financial report of a listed mining client whose annual report it also audits			
(d) Giving assurance on a cement manufacturer's greenhouse gas statement			
(e) Checking, under procedures agreed with a sporting club, that each raffle's ticket money was banked, and reporting the findings			
(f) Reporting on the design and operating effectiveness, over a year, of controls at a custodian that holds investments for superannuation funds, for the funds and their auditors			
(g) Reporting to a state regulator on whether a waste-management company complied with its environmental licence			
(h) Examining a profit forecast in a company's offer document			

Question 2 - Explaining the limits

The managing director of Wobbleworks Toys Pty Ltd (imagined) tells you: 'We pay you to audit our accounts, so if anyone is committing fraud, you should catch it. Otherwise, what's the point?' Explain the three limitations of an audit to the managing director, and what the audit does give.

Question 3 - Financial statement audit or performance audit?

Classify each finding as more likely to come from a financial statement audit or a performance audit.

Finding	More likely from
(a) A state water authority's pipelines were overvalued because damaged sections hadn't been written down	
(b) A free school dental program reached only a third of eligible children because few families knew it existed	
(c) A department paid 20% more than neighbouring states for the same school laptops because it didn't use a whole-of-government purchasing contract	
(d) Long service leave owed to council staff was understated because the payroll system ignored some years of service	
(e) A licensing office takes three times as long as a comparable office to process each application, with the same number of staff	
(f) Building permit fees received in June were recorded as revenue of the following year	

Worked answers

MODULE 1 | 1.3 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Calloway Pryce Accountants

	Assurance?	Type	Level
(a)	Yes	Audit of financial statements	Reasonable (positive opinion)
(b)	No	Compilation, a related service	None
(c)	Yes	Review of historical financial information	Limited (negative form)
(d)	Yes	Sustainability assurance: greenhouse gas statement	Reasonable or limited, as agreed
(e)	No	Agreed-upon procedures: factual findings only	None
(f)	Yes	Systems and processes: service organisation controls	Usually reasonable
(g)	Yes	Aspects of behaviour: compliance engagement	Reasonable or limited
(h)	Yes	Information about the future	Limited on assumptions; opinion on preparation

Question 2 - Wobbleworks Toys (sample answer)

- **What the audit gives:** reasonable assurance, high but not absolute, that the statements are free of material misstatement from fraud or error. Preventing and detecting fraud is first the job of management and the directors.
- **Nature of financial reporting:** provisions, fair values and other estimates rest on judgement and have no single right answer, so the auditor tests whether they are reasonable, not exact.
- **Nature of audit procedures:** the auditor relies on the company's information, tests samples, has no legal power to search premises, can question only the company's own officers, and can be deceived by forgery or collusion.
- **Time and cost:** the audit must finish while the figures are still useful, at a sensible cost. That never justifies skipping a necessary procedure, but the audit can't examine everything.
- **So:** a well-run audit is likely to detect fraud that causes a material misstatement, but no audit can promise to catch every fraud, especially a small or well-concealed one.

Question 3 - Classifying the findings

	More likely from	Why
(a)	Financial statement audit	Valuation of assets in the balance sheet
(b)	Performance audit	Effectiveness: the program isn't achieving its objective
(c)	Performance audit	Economy: inputs bought at more than the lowest cost
(d)	Financial statement audit	A misstated liability (completeness and accuracy)
(e)	Performance audit	Efficiency: less output from the same inputs
(f)	Financial statement audit	Cut-off: revenue recorded in the wrong period