



MALAYSIAN INSTITUTE
OF ACCOUNTANTS
ACCOUNTANTS: MANAGERS OF VALUE



**UNDERSTANDING
ENGAGEMENTS
undertaken by
Practitioners**

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Assurance Engagements

Practitioners have been engaged by companies to perform various engagements either for statutory audit purposes, complying with requirements of various regulators or even for financing purposes. These engagements can be categorized into:



- Assurance engagements¹
- Non-assurance engagements

The engagements discussed in this document are those engagements governed by the "International Standards" issued by the International Auditing and Assurance Standards Board ("IAASB") which are adopted in Malaysia. IAASB is the global standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services and by facilitating the convergence of international and national standards. In doing so, the IAASB enhances the quality and uniformity of practice throughout the world and strengthens public confidence in the global auditing and assurance profession.

Assurance Engagements

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**. The "outcome of the evaluation or measurement of a subject matter" is termed as **subject matter information**. Having an independent professional practitioner giving assurance on the subject matter information, would add credibility and improve the quality of the subject matter information. Accordingly, it will increase confidence in the relevance and reliability of the subject matter information which will assist the intended users in their decision making process.

¹ The IAASB issued *International Framework for Assurance Engagements* which outlines the definition, elements and objectives of assurance engagements. The *Framework* provides a frame of reference to (a) the practitioner when performing the assurance engagements; (b) others involved in the engagements; and (c) IAASB in its development of international standards on auditing, review and assurance.

Elements of Assurance Engagements



The elements of an assurance engagement are as follows:

- a) Three party relationship;
- b) Subject matter;
- c) Criteria;
- d) Evidence; and
- e) Assurance report.

Three Party Relationship

An assurance engagement involves three separate parties: a practitioner, a responsible party and intended users. The responsible party is the person (or persons) who prepared the subject matter.

Subject Matter

A subject matter can be one of the following categories:

- a) Data (for example, financial statements)
- b) Systems or processes (for example, internal control systems)
- c) Behaviour (for example, corporate governance)

Criteria

Criteria are the benchmarks used to evaluate or measure the subject matter. Some examples of criteria are:

- a) In the preparation of financial statements, the criteria may be accounting standards;
- b) When reporting on internal control, the criteria may be an established internal control framework;
- c) When reporting on compliance, the criteria may be the applicable law, regulation or contract.

Evidence

In an assurance engagement, the practitioner obtains sufficient appropriate evidence about whether the subject matter information meets the criteria and free from material misstatement.

Assurance Report

An assurance report is a written report prepared by the practitioner to the intended users that contain certain specified information and a conclusion that conveys the assurance obtained on the subject matter information.

The elements of an assurance engagement that can be seen in an audit of a public listed entity is as follows:

Three party relationship	Shareholders (users) Board of directors (responsible party) Audit firm (practitioner)
Subject matter	Financial statements
Criteria	Companies Act 1965 and accounting standards (Malaysian Financial Reporting Standards – MFRS)
Evidence	Sufficient and appropriate evidence is required to support the audit opinion as governed by the auditing standards
Assurance report	Auditor’s report as governed by the auditing standards

The subject matter information of an audit engagement is the recognition, measurement, presentation and disclosures represented in the financial statements.

Levels of Assurance

A practitioner is permitted to provide 2 levels of assurance:

- Reasonable assurance
- Limited assurance

The level of assurance that can be given by a practitioner depends on the evidence that can be obtained by the practitioner. It will then determine the type of conclusion given to the intended users (either positive or negative). The lower level of assurance given, the lower level of evidence is required to be gathered. This can be summarised as follows:

LEVEL OF ASSURANCE	EVIDENCE SOUGHT	CONCLUSION GIVEN	EXAMPLE OF CONCLUSION
Reasonable Assurance	Sufficient and appropriate	Positive	"In our opinion internal control is effective, in all material respects, based on XYZ criteria."
Limited assurance	Sufficient and appropriate (lower level)	Negative	"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."

Assurance can never be absolute as there are limitations of assurance services. There is always a risk involved where wrong conclusion will be drawn. Some of the limitations are:

- Use of testing. For example, the auditors do not oversee the process of preparing the financial statements from start to finish. The auditors also would not test every item in the financial statements (due to cost factor) in which sampling approach is used.
- Audit evidence is persuasive rather than conclusive.
- Some items in the subject matter may be estimates and therefore are uncertain.
- The client's staff members may collude in fraud that can be deliberately hidden from the auditor.

Type of Assurance Engagements

There are 3 types of assurance engagements that a practitioner can undertake which is summarised below:

ENGAGEMENT	INTERNATIONAL STANDARDS	LEVEL OF ASSURANCE	FORM OF REPORT	EXAMPLE OF ENGAGEMENTS
Audit	International Standards on Auditing (ISAs)	Reasonable	Opinion, expressed in positive form	Statutory audit as required by Companies Act 1965
Review	International Standards on Review Engagements (ISREs)	Limited	Conclusion, expressed in negative form	Review of quarterly results
Other assurance	International Standards on Assurance Engagements (ISAEs)	Reasonable OR Limited	Opinion, expressed in positive form OR Conclusion, expressed in negative form	<ul style="list-style-type: none"> • Sustainability report • Effectiveness of internal control over financial reporting • Report on prospective financial information in a prospectus

Non-Assurance Engagements



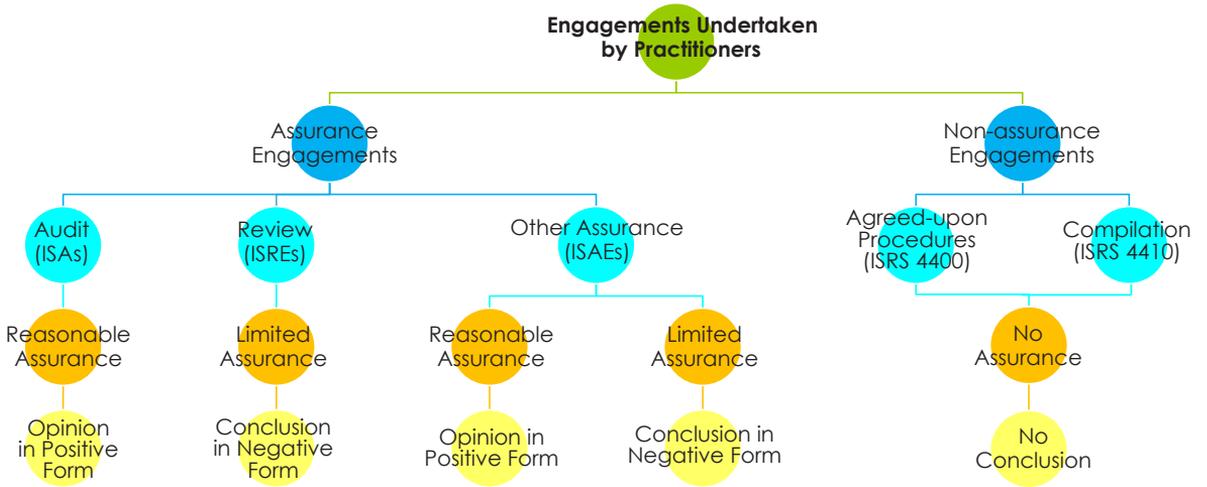
These are engagements other than those covered under the assurance engagements which include the following:

ENGAGEMENT	INTERNATIONAL STANDARDS	LEVEL OF ASSURANCE	FORM OF REPORT	EXAMPLE OF ENGAGEMENTS
Agreed upon procedures	ISRS ² 4400, <i>Engagements to Perform Agreed-Upon Procedures Regarding Financial Information</i>	None	Factual findings report from performing specified procedures, no conclusion	Report of factual findings on accounts payable
Compilation	ISRS 4410 (Revised), <i>Compilation Engagements</i>	None	Report on the engagement to compile financial information	Report to compile financial statements using the basis of accounting specified in a contract

² International Standards on Related Services as issued by IAASB.

Summary of Engagements

The chart below provides an overview of the engagements undertaken by practitioners.



This document is published to provide better understanding of the engagements undertaken by a practitioner. For queries and further information, you can email technical@mia.org.my.

The Malaysian Institute Of Accountants (“MIA”)

MIA is a statutory body established under the Accountants Act, 1967 to regulate and develop the accountancy profession in Malaysia. As at November 2012, MIA has close to 29,000 members. For more information please visit: www.mia.org.my

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To be a globally recognised and renowned institute of accountants committed to nation building.

Mission

To develop, support and monitor quality and expertise consistent with global best practice in the accountancy profession for the interest of stakeholders.

Objectives

1. To promote & regulate professional & ethical standards
2. To develop & enhance competency through continuous education & training to meet the challenges of the global economy
3. To enhance the status of members
4. To lead R&D for the enhancement of the profession
5. To inculcate a high sense of social responsibility

The Use of the Word “Accountant”

In Malaysia, the word “accountant” is protected as provided for under the provisions of the Act which states that no one can hold himself out or practise as an accountant unless he is registered as a member of MIA.

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