

本署檔號 Our Ref.: CAB C1/1/1 & C1/30/10  
來函檔號 Your Ref.: CB2/PL/CA

電話 Tel: 2810 2106  
圖文傳真 Fax: 2840 1976

12 December 2003

Clerk to Panel  
(Attn : Mrs Percy MA)  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central  
Hong Kong

Dear Mrs MA,

**EAC (Financial Assistance for Legislative Council Elections)  
(Application and Payment Procedures) Regulation**

At the Constitutional Affairs Panel meeting on 17 November 2003, we briefed Members on the main features of a draft Regulation to provide for the detailed procedures to implement a financial assistance scheme for candidates and lists of candidates standing in Legislative Council elections. During discussion, a Member requested for a copy of the Standard on Assurance Engagements 200, High Level Assurance Engagements (SAE 200) which was proposed to be adopted for auditing declared election expenses and declared election donations.

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A copy of the SAE 200 is attached to this letter for Members' reference.

By way of background, the Legislative Council (Amendment) Ordinance 2003 was enacted on 3 July 2003. The new Part VIA of the Ordinance provides for a financial assistance scheme for candidates and lists of candidates (as the case may be) standing in Legislative Council elections. The Ordinance further empowers the Electoral Affairs Commission to make regulations to provide for the detailed procedures to implement the scheme.

Under section 60I of the Ordinance, it is stipulated that the accounts of the declared election expenses and the declared election donations have to be audited by an auditor before a claim for financial assistance can be made by a candidate or a list of candidates. When preparing the draft Regulation, the Registration and Electoral Office has consulted the Hong Kong Society of Accountants (HKSA) on the standard to be adopted by an auditor when auditing the accounts. Their advice is that the accounts should be audited in accordance with SAE 200, issued and amended by the Council of the HKSA from time to time.

The HKSA has issued two types of assurance standards, namely Statements of Auditing Standards (SASs) and Standards on Assurance Engagements (SAEs). SASs set out the standards to be complied with in the conduct of an audit of financial statements. The most common application of SASs is the audit of annual financial statements of companies incorporated under the Companies Ordinance. SAEs are used in engagements other than audits of financial statements that provide the users with an assurance about a subject matter such as data, systems and processes and behaviour. SAEs are commonly used in compliance reporting required by regulators. Currently SAEs comprise SAE 100, which provides an overall framework, and SAE 200, which is developed on the basis of SAE 100 and contains the basic principles and essential procedures together with related guidance for high level assurance engagements performed by auditors where no specific standards exist.

SAE 200 is considered the appropriate assurance standard for auditing the declared election expenses and donations for the purpose of the financial assistance scheme in view of the fact that it is a compliance reporting engagement. Under this engagement, the auditor is required to express an opinion as to whether or not the election return, with the accounts of the declared election expenses and the declared election donations, complies with sections 37(1) and (2)(b) of the Elections (Corrupt and Illegal Conduct) Ordinance in all material respects.

For Members' reference, organizations in receipt of funding support from the Innovation and Technology Fund are also required to submit accounts to the Commissioner for Innovation and Technology, in accordance with SAE 200.

It is not expected that the auditing requirement will give rise to additional workload to candidates or lists of candidates who, in any case, are required to prepare election returns setting out the election expenses and election donations under section 37 of the Elections (Corrupt and Illegal Conduct) Ordinance.

Candidates or lists of candidates who do not wish to claim financial assistance are not required to have their accounts of election expenses and election donations audited, but they will still have to file their returns together with the accounts in accordance with section 37 of the Elections (Corrupt and Illegal Conduct) Ordinance.

I should be grateful if you would circulate this letter to Members for their reference.

Yours sincerely,

( Patricia WOO )  
for Secretary for Constitutional Affairs



## MEMBERS' HANDBOOK

# STANDARD ON ASSURANCE ENGAGEMENTS 200 HIGH LEVEL ASSURANCE ENGAGEMENTS

(Issued June 2001)

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[June 2001 (Supp. No. 11/01)]

# STANDARD ON ASSURANCE ENGAGEMENTS 200 HIGH LEVEL ASSURANCE ENGAGEMENTS

(Issued June 2001)

[June 2001 (Supp. No. 11/01)]

*This Standard on Assurance Engagements (SAE) contains the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material for high level assurance engagements performed by auditors where no specific standards exist. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.*

*To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of this SAE, including explanatory and other material contained therein, not just that text which is black lettered.*

*In exceptional circumstances, auditors may judge it necessary to depart from this SAE in order to more effectively achieve the objective of the assurance engagement. When such a situation arises, the auditors should be prepared to justify the departure.*

*This SAE need only be applied to material aspects of the subject matter.*

### **Introduction**

1. This Standard on Assurance Engagements (SAE) establishes standards for and provides guidance to auditors for the performance of assurance engagements intended to provide a high level of assurance.
2. The term "high level assurance engagement" is used to describe any assurance engagement intended to provide a high, but not absolute, level of assurance. The auditors design the engagement process so that the risk of expressing an inappropriate conclusion that the subject matter conforms in all material respects with suitable criteria, is reduced to a low level. The auditors obtain sufficient appropriate evidence through procedures such as inspection, observation, enquiry, confirmation, computation and analysis.

### **Objective of a high level assurance engagement**

3. ***The objective of a high level assurance engagement is for the auditors 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 high level of assurance about that subject matter. (SAE 200.1)***

### **Ethical requirements**

4. ***The auditors should comply with the requirements of the Professional Ethics Statements of the Society. (SAE 200.2)***
5. ***The auditors who perform an assurance engagement should be independent. (SAE 200.3)***

### **Accepting the engagement**

6. ***The auditors should accept an assurance engagement only if the subject matter is the responsibility of another party. (SAE 200.4)***
7. Acknowledgement by the responsible party provides evidence that the appropriate relationship exists and also establishes a basis for a common understanding of the responsibility of each party. Obtaining this acknowledgement in writing provides the most appropriate form of documentation of the responsible party's acknowledgement, but, recognizing the broad range of assurance engagements, this is not always practical. There may be other sources of evidence that indicate responsibility for the subject matter; for example, it may be clearly established in legislation, or contract. When the auditors have other evidence that the responsibility exists, acknowledgement of responsibility for the subject matter may be obtained at other points in the engagement such as through discussions on the criteria or the level of assurance.
8. ***The auditors should accept an assurance engagement only if the subject matter is identifiable and in a form that can be subjected to evidence gathering procedures, and the auditors are not aware of any reason for believing that a conclusion expressing a high level of assurance about the subject matter based on suitable criteria cannot be expressed. (SAE 200.5)***
9. The auditors may accept an assurance engagement only if, as a result of initial discussions with one or more of the parties associated with the engagement, and on the basis of a preliminary knowledge of the engagement circumstances, nothing comes to the attention of the auditors to indicate that the requirements of this SAE will not be satisfied. The auditors also need to have a reasonable basis for believing that a conclusion with a high level of assurance concerning the subject matter can be provided and that the conclusion can be meaningful to the intended user of the report of the auditors.

10. ***The auditors should be satisfied that those performing an assurance engagement possess collectively the necessary professional expertise to perform the engagement. (SAE 200.6)***
11. Some subject matters may require specialist skills and knowledge beyond those auditors ordinarily possess. In such cases the auditors ensure that those persons carrying out the engagement as a team possess the requisite skills and knowledge.

#### **Agreeing the terms of the assurance engagement**

12. ***The auditors should agree on the terms of the assurance engagement with the party who engages the auditors. (SAE 200.7)***
13. As a means of reducing uncertainty, it is recommended that the agreed terms be recorded in an engagement letter or other suitable form of contract. In some cases the engagement objective, subject matter and time period are prescribed by a party or parties other than the one that appoints the auditors, for example, by legislation. Where the assurance engagement mandate is legislated, acknowledgement of the legislative mandate meets this requirement.
14. Auditors who, before the completion of the engagement, are requested to change the engagement from one that provides a high level of assurance to a different engagement, consider the appropriateness of doing so, and cannot agree to a change where there is no reasonable justification for the change.

#### **Quality control**

15. ***The auditors should implement quality control policies and procedures designed to ensure that the assurance engagement is conducted in accordance with applicable Standards issued by the Society. (SAE 200.8)***
16. Quality control policies and procedures apply at two levels, and relate to the overall policies and procedures for all assurance engagements and also to the direction, supervision and review of work delegated to personnel involved in a specific assurance engagement. SAS 240 "Quality control for audit work" sets out the current applicable standards.

#### **Planning and conduct**

17. ***The auditors should plan and conduct the assurance engagement in an effective manner to meet the objective of the engagement. (SAE 200.9)***
18. Planning consists of developing a general strategy and a detailed approach to the assurance engagement, and assists the proper assignment and supervision of work. The following are examples of the main matters that need to be considered:
  - a. The engagement objective.
  - b. The criteria to be used.
  - c. The engagement process and possible sources of evidence.
  - d. Preliminary judgements about materiality and engagement risk.
  - e. Personnel and expertise requirements, including the nature and extent of the involvement of the experts.

Planning and supervision are continuous throughout the engagement, and plans may need to be changed as the engagement progresses.

19. ***The auditors should plan and conduct an assurance engagement with an attitude of professional skepticism. (SAE 200.10)***
20. The auditors neither assume that the responsible party is dishonest nor assume unquestioned honesty. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. Without an attitude of professional skepticism, the auditors may not be alert to circumstances that lead to a suspicion, and may draw inappropriate conclusions from the evidence obtained.

21. ***The auditors should have or obtain knowledge of the engagement circumstances sufficient to identify and understand the events, transactions and practices that may have a significant effect on the subject matter and engagement. (SAE 200.11)***
22. Such knowledge is used by the auditors in assessing the suitability of the criteria, engagement risk and in determining the nature, timing and extent of engagement procedures.
23. ***The auditors should assess whether the criteria are suitable to evaluate the subject matter. (SAE 200.12)***
24. Criteria can be either established or specifically developed. Established criteria are those embodied in laws or regulations, or issued by recognized bodies of experts that follow due process. Specifically developed criteria are those identified for the purpose of the engagement and which are consistent with the engagement objective. The source of the criteria will affect the amount of work the auditors will need to carry out in order to assess suitability for a particular engagement. In addition, those engaging the auditors and the auditors agree on the criteria. The auditors may also discuss the criteria to be used with the responsible party or the intended user.
25. The decision as to whether the criteria are suitable involves considering whether the subject matter is capable of reasonably consistent evaluation against or measurement using such criteria. The characteristics for determining whether criteria are suitable are as follows:
- Relevance: relevant criteria contribute to conclusions that meet the objectives of the engagement, and have value in terms of improving the quality of the subject matter, or its content, so as to assist decision making by intended users;
  - Reliability: reliable criteria result in reasonably consistent evaluation or measurement and, where relevant, presentation of the subject matter and conclusions when used in similar circumstances by similarly qualified professional accountants;
  - Neutrality: neutral criteria are free from bias. Criteria are not neutral if they cause the auditors' conclusion to mislead report users;
  - Understandability: understandable criteria are clear and comprehensive and are not subject to significantly different interpretation; and
  - Completeness: complete criteria exist when all the criteria that could affect the conclusions are identified or developed, and used.
26. The assessment of whether criteria are suitable involves weighing the relative importance of each characteristic and is a matter of judgement in light of the specific objective of the engagement. Irrespective of whether the subject matter is quantitative or qualitative, the criteria are to be suitable. In applying the guidance in paragraph 25, it is recognized that while suitable criteria are to possess each of the characteristics, the evidence available to support some of those characteristics for a particular subject matter will be less conclusive. If any of the characteristics are not met, the criteria are unsuitable. In emerging types of assurance engagements it is less likely that there will be established criteria, and therefore criteria will need to be specifically developed.
27. The auditors ordinarily conclude that established criteria are suitable when the criteria are consistent with the engagement objective, unless an identifiable limited group of users has agreed to other criteria. In such cases, the report issued by the auditors indicates that the report is intended only for the use of the identified users. For example, Statements of Standard Accounting Practice issued by the Society or International Accounting Standards are established criteria for the preparation and presentation of financial statements, but a particular user may specify an alternative basis of accounting that meets the user's specific information needs. The auditors need to be satisfied that specifically developed criteria do not result in a report that is misleading to intended users. The auditors attempt to obtain from the intended users, those engaging the auditors, or the responsible party, acknowledgement that specifically developed criteria are sufficient for the intended users' purposes. When such acknowledgement cannot be obtained, the auditors consider the effect of this on the nature and extent of work required to be satisfied as to the suitability of the criteria and on the information provided about the criteria in the report of the auditors.
28. ***The auditors should consider materiality and engagement risk when planning and conducting the assurance engagement in order to reduce the risk of expressing an inappropriate conclusion that the subject matter conforms in all material respects with suitable criteria. (SAE 200.13)***

29. When considering materiality, the auditors need to understand and assess what factors might influence the decisions of the intended users. Materiality can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and extent of the effect of these factors on the subject matter and the expressed interests of intended users. The assessment of materiality and the relative importance of quantitative and qualitative factors in a particular engagement are matters for the auditors' judgement.
30. Engagement risk<sup>1</sup> is the risk that the auditors will express an inappropriate conclusion that the subject matter conforms in all material respects with suitable criteria. The auditors plan and perform the engagement so as to reduce to an acceptable level the risk of expressing an inappropriate conclusion. In general, engagement risk can be represented by the following components:
- inherent risk: the risks associated with the nature of the subject matter;
  - control risk: the risk that the responsible party's controls over the subject matter will not prevent, or detect and correct on a timely basis, matters that could affect the subject matter; and
  - detection risk: the risk that the auditors' procedures will not detect material matters that could affect the subject matter.

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<sup>1</sup> In addition to engagement risk, the auditors are exposed to a business risk through loss or injury from litigation, adverse publicity, or other event arising in connection with a subject matter reported on. Business risk is not part of engagement risk and does not affect the application of this SAE.

31. While considered by the auditors in all engagements, not all components of the engagement risk model will be significant for all assurance engagements. The extent to which the auditors consider the relevant components of engagement risk will be affected by the engagement circumstances, for example the nature of the subject matter.
32. Engagement risk is influenced by the risks associated with:
- the nature and form of the subject matter;
  - the nature and form of the criteria applied to the subject matter;
  - the nature and extent of the process used to collect and evaluate evidence; and
  - the sufficiency and appropriateness of the evidence likely to be available.

## Evidence

33. ***The auditors should obtain sufficient appropriate evidence on which to base the conclusion. (SAE 200.14)***
34. The concepts of sufficiency and appropriateness of evidence are interrelated, and include considering the reliability of evidence. Sufficiency is the measure of the quantity of evidence obtained and appropriateness is the measure of its quality, including its relevance to the subject matter. The decision as to whether sufficient evidence has been obtained will be influenced by its quality. The quality of evidence available to the auditors will be affected by the nature of the subject matter and the quality of the criteria, and also by the nature and extent of the procedures applied by the auditors. A determination as to the sufficiency and appropriateness of evidence is a matter of professional judgement.
35. The auditors collect and evaluate evidence to evaluate whether the subject matter is in conformity with the identified criteria. The reliability of evidence is influenced by its source: internal or external, and by its nature: visual, documentary or oral. While the reliability of evidence is dependent on individual circumstances, the following generalizations will help in assessing the reliability of evidence:
- evidence from external sources is more reliable than that generated internally;
  - evidence generated internally is more reliable when subject to appropriate controls within the entity;



- c. evidence obtained directly by the auditors is more likely to be reliable than that obtained from the entity; and
  - d. evidence in the form of documents and written representation is more likely to be reliable than oral representations.
36. Evidence is more persuasive when items of evidence from different sources or of a different nature are consistent. In these circumstances, the auditors may obtain a cumulative degree of confidence higher than that obtained from items of evidence considered individually. Conversely, when evidence obtained from one source is inconsistent with that obtained from another, the auditors determine what additional procedures are necessary to resolve the inconsistency.
37. In terms of obtaining sufficient appropriate evidence, it is generally more difficult to provide assurance on subject matter covering a period of time than subject matter covering a point in time. In addition, conclusions provided on processes are generally limited to the period covered by the engagement and do not extend to providing any assurance that the process will continue in the future.

### Documentation

38. ***The auditors should document matters that are important in providing evidence to support the conclusion expressed in the report issued by the auditors, and in providing evidence that the assurance engagement was performed in accordance with this SAE. (SAE 200.15)***
39. Documentation includes a record of the auditors' reasoning on all significant matters that require the exercise of judgement, together with the auditors' conclusion thereon. In areas involving difficult questions of principle or judgement, the documentation will include the relevant facts that were known by the auditors at the time the conclusion was reached.
40. The extent of documentation is a matter of professional judgement since it is neither necessary nor practical to document every matter the auditors consider. In assessing the extent of documentation to be prepared and retained, it may be useful for the auditors to consider what is necessary to provide another auditor who has no previous experience with the engagement with an understanding of the work performed and the basis of the principal decisions taken, but not the detailed aspects of the engagement. However, even then, that other auditor may only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the auditors who prepared the documentation.

### Subsequent events

41. ***The auditors should consider the effect of subsequent events up to the date of the report issued by the auditors. When the auditors become aware of events that materially affect the subject matter and the auditors' conclusion, the auditors should consider whether the subject matter reflects those events properly or whether those events are addressed properly in the report issued by the auditors. (SAE 200.16)***
42. The extent of any consideration of subsequent events depends on the potential for such events to affect the subject matter and to affect the appropriateness of the auditors' conclusions. For some assurance engagements the nature of the subject matter may be such that consideration of subsequent events is not relevant to the conclusion. For example, when the engagement is to provide a conclusion about the accuracy of a statistical return at a point in time, events occurring after that point in time, but before the date of the report issued by the auditors, may not affect the conclusion.

### Using the work of an expert

43. ***When an expert is used in the collection and evaluation of evidence, the auditors and the expert should, on a combined basis, possess adequate knowledge of the subject matter and have adequate proficiency in the subject matter for the auditors to determine that sufficient appropriate evidence has been obtained. (SAE 200.17)***
44. The subject matter and related criteria of some assurance engagements may be composed of a number of elements requiring specialized knowledge and skills in the collection and evaluation of

evidence. In these situations, the auditors may decide to use the work of persons from other professional disciplines, referred to as experts, who have the required skills and knowledge of the relevant aspects of the subject matter or criteria. This SAE does not provide guidance on engagements where there is joint responsibility and reporting by the auditors and one or more experts.

45. Due care is a required professional quality for all individuals, including experts, involved in an assurance engagement. Persons involved in assurance engagements will have varying responsibilities assigned to them. The extent of proficiency required in performing those engagements will vary with the nature of their responsibilities. While experts do not require the same proficiency as the auditors in performing all the components of an assurance engagement, the auditors determine that the experts have a sufficient understanding of this SAE to enable them to relate the work assigned to them to the engagement objective.
46. The exercise of due care requires that all persons involved in an assurance engagement comply with this SAE, including any subject matter experts who are not professional accountants. The quality control procedures adopted by the auditors will address the responsibility of each person performing the assurance engagement to comply with this SAE in the context of their responsibilities in the engagement process.
47. ***When an expert is involved, the auditors should have a level of involvement in the engagement and an understanding of the aspects of the subject matter for which the expert has been used, sufficient to enable the auditors to accept responsibility for expressing a conclusion on the subject matter. (SAE 200.18)***
48. The auditors consider the extent to which the auditors will rely on the work of an expert in forming a conclusion on the subject matter.
49. The auditors are not expected to possess the same specialized knowledge and skills as the expert. However, the auditors need to have a reasonable understanding to:
  - a. define the objectives of the work assigned to the expert and how this work relates to the objective of the engagement;
  - b. consider the reasonableness of the assumptions, methods and source data used by the expert; and
  - c. consider the reasonableness of the findings of the expert in relation to the objective of the engagement.
50. ***When an expert is involved, the auditors should obtain sufficient appropriate evidence that the work of the expert is adequate for the purposes of the assurance engagement. (SAE 200.19)***
51. The auditors evaluate the sufficiency and appropriateness of the evidence provided by the expert by considering and assessing:
  - a. the professional competence, experience and objectivity of the expert;
  - b. the reasonableness of the assumptions, methods and source data used by the expert; and
  - c. the reasonableness and significance of the expert's findings in relation to the objective of the engagement and the conclusion on the subject matter.

## Reporting

52. ***The report issued by the auditors should express a conclusion that conveys a high level of assurance about the subject matter, based on the results of the work performed. The report issued by the auditors should contain a clear expression of the auditors' conclusion about a subject matter based on the identified suitable criteria and the evidence obtained in the course of the assurance engagement. (SAE 200.20)***
53. The report issued by the auditors can take various forms, such as written (in hard copy or electronic form), oral, or by symbolic representation. However, a written report is generally the most effective form for adequately presenting the detail required and evidencing the conclusions provided. Oral and other forms of expressing the conclusion are open to misunderstanding without the support of a written report. For this reason, the auditors will not ordinarily report orally without also providing a definitive written report.

54. This SAE does not require a standardized format for reporting on all assurance engagements but rather identifies the minimum information required to be included in the report. These minimum requirements may be tailored to the specific engagement circumstances. For certain assurance engagements, the auditors may choose to adopt a flexible approach using a narrative (or "long form") style of reporting rather than a standardized (or "short form") format. This will result in more engagement-specific reports to facilitate effective communication to the intended user of the conclusion expressed.
55. The form of conclusion to be expressed by the auditors is determined by the nature of the subject matter and the agreed objective of the engagement and is designed to meet the needs of the intended user of the report issued by the auditors.

#### Report content

**56. The report issued by the auditors should include:**

- a. **title;**
- b. **an addressee;**
- c. **a description of the engagement and identification of the subject matter;**
- d. **a statement to identify the responsible party and describe the auditors' responsibilities;**
- e. **when the report is for a restricted purpose, identification of the parties to whom the report is restricted and for what purpose it was prepared;**
- f. **a statement that the engagement was conducted in accordance with this SAE;**
- g. **identification of the criteria;**
- h. **the auditors' conclusion, including any reservations or denial of a conclusion;**
- i. **the report date; and**
- j. **the name of the firm or the auditors and the place of issue of the report. (SAE 200.21)**

57. An appropriate title helps to identify the nature of the assurance engagement being conducted, the nature of the report and to distinguish the report issued by the auditors from reports issued by others such as those who do not have to abide by the same ethical requirements as the auditors.
58. An addressee identifies the party or parties to whom the report is directed.
59. The description includes the engagement objective, the subject matter, and (when appropriate) the time period covered.
60. The statement in paragraph 56(d) above informs the reader that the responsible party is responsible for the subject matter and that the auditors' role is to express a conclusion about the subject matter.
61. While the auditors cannot control the distribution of the report, paragraph 56(e) above will inform readers of the party or parties to whom the report is restricted and for what purpose, and provides a caution to readers other than those identified that the report is intended only for the purposes specified.
62. The report issued by the auditors includes a description of the engagement process and identifies the nature and extent of procedures applied.
63. The report issued by the auditors identifies the criteria against which the subject matter was evaluated or measured so that readers can understand the basis for the auditors' conclusions. The criteria may either be described in the report issued by the auditors or simply be referred to if they are set out in an assertion prepared by the responsible party or exist in a readily accessible source. Disclosure of the source of the criteria and whether or not the criteria are generally accepted in the context of the purpose of the engagement and the nature of the subject matter is important in understanding the conclusions expressed.
64. The report informs users of the auditors' conclusion that conveys a high level of assurance about the subject matter evaluated against the criteria. Where the engagement has more than one

objective, a conclusion on each objective is expressed. Where the auditors express a reservation or denial of conclusion, the report issued by the auditors contains a clear description of all the reasons.

65. The date of the report issued by the auditors informs readers that the auditors have considered the effect on the subject matter of material events of which the auditors became aware up to that date.
66. The name informs the readers of the individual or firm assuming responsibility for the engagement.
67. The auditors may expand their report to include other information and explanations not intended as a reservation. Other examples include findings relating to particular aspects of the engagement and recommendations of the auditors or references to the inherent limitations of the subject matter. When considering whether to include any such information, the auditors assess the significance of that information in the context of the objective of the engagement. Additional information is not to be worded in such a manner to affect the conclusion of the auditors. The auditors consider the use of appropriate headings to identify the principal sections of the report issued by the auditors as a means of improving communication.

#### **Reservation or denial of conclusion**

68. ***A reservation or denial of conclusion should clearly be expressed by the auditors in circumstances where:***
  - a. ***the auditors are of the view that one, some or all aspects of the subject matter do not conform to the identified criteria;***
  - b. ***the assertion prepared by the responsible party is inappropriate in terms of the identified criteria; or***
  - c. ***the auditors are unable to obtain sufficient appropriate evidence to evaluate one or more aspects of the subject matter's conformity with the identified criteria. (SAE 200.22)***
69. Where the auditors express a reservation about the subject matter, the nature and expression of that reservation is determined by the materiality of the matter giving rise to the reservation, for example, whether it relates to some or all aspects of the subject matter not conforming to the criteria (disagreement), or the inability of the auditors to obtain sufficient appropriate evidence on some or all aspects of the subject matter (limitation of scope). When the auditors express a reservation of conclusion or a denial of conclusion, the report issued by the auditors discloses all significant facts and reasons relating to the reservation or denial.

#### **Compliance with International Standard on Assurance Engagements**

70. Compliance with the auditing standards contained in this SAE ensures compliance in all material respects with the basic principles and essential procedures in International Standard on Assurance Engagements.

#### **Effective date**

71. This SAE is effective for assurance engagements intended to provide a high level of assurance where the report is dated on or after 1 October 2001. Earlier application is encouraged.

*[End of June 2001 (Supp. No. 11/01)]*