



# REPORTING ON PUBLIC SECTOR PERFORMANCE

## ASSURANCE ON NON-FINANCIAL INFORMATION IN THE PUBLIC SECTOR

By Adrian Byrne



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# FOREWORD

Is the delivery of public services improving? How does performance compare to similar public sector bodies? Are performance targets being met? Should more or less resources be allocated to certain areas or specific public sector bodies? How sustainable are the operations of public sector bodies? These are all important questions that can only be answered if reliable information is available.

The production and publication of non-financial information already forms a fundamental part of the accountability framework for public sector bodies. As a result, there is a long history within the public sector of reporting non-financial information, with accountants, auditors and others often providing comfort that the non-financial information being produced is reliable. With the development of sustainability reporting and other new reporting requirements for non-financial information, this is an area that continues to develop and grow.

This publication is designed to assist various stakeholders involved in developing, implementing and refining assurance frameworks over non-financial information in the public sector. It considers the key aspects of an assurance framework for the reporting of non-financial information, the alternative options that are available, and highlights examples of good practice. In turn, this should help to contribute to the production of reliable non-financial information for use by public bodies and others in decision making and resource allocation.

**Adrian Byrne**, Chair of ICAEW's Public Sector Special Reports of Accountants Panel

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# CONTENTS

<b>FOREWORD</b>	<b>03</b>
<b>ACKNOWLEDGEMENTS</b>	<b>04</b>
<b>INTRODUCTION</b>	<b>06</b>
Background	06
Objectives	06
<b>NON-FINANCIAL REPORTING ASSURANCE ENGAGEMENTS</b>	<b>07</b>
<b>Requirement to report non-financial information</b>	<b>07</b>
Performance frameworks	07
Performance information systems	07
Consultation with stakeholders	08
<b>Requirement for the provision of assurance</b>	<b>09</b>
Alternative options	09
Assurance engagements	09
Alternative services	10
Assurance providers	11
<b>Subject matter</b>	<b>11</b>
<b>Scope of work</b>	<b>12</b>
<b>Criteria for assessment</b>	<b>12</b>
<b>Materiality</b>	<b>12</b>
<b>Reporting</b>	<b>14</b>
<b>Other matters</b>	<b>15</b>
Documentation	15
Frequency	16
Fees	16
<b>FUTURE DEVELOPMENTS</b>	<b>17</b>
<b>New reporting areas</b>	<b>17</b>
Sustainability	17
Local government	17
Localism	17
<b>Revisions to ISAE 3000</b>	<b>18</b>
<b>REFERENCES</b>	<b>19</b>
<b>ABOUT THE AUTHOR</b>	<b>20</b>

# INTRODUCTION

## BACKGROUND

- 1 While traditional financial measures are relevant to assessing the performance of public sector bodies, non-financial information is fundamental to understanding the performance of what are largely not-for-profit entities, operating for the public benefit.
- 2 Non-financial information is often used for policy decision making and providing information to help in the allocation of resources across the public sector. It is also a key aspect of public accountability for the activities of public sector bodies. Users of the non-financial information include Parliament, government departments, other public bodies, special-interest groups and members of the public.
- 3 Users of non-financial information therefore have a reasonable expectation that the information they use will be reliable. Past experience has shown that this is not always the case. On occasion, material errors have been identified in publicly reported non-financial information. There is also a risk that non-financial information may be deliberately misstated when reporting performance or in connection with funding arrangements.
- 4 Obtaining third-party assurance over non-financial information produced by a public sector body is one way in which comfort can be obtained that information being produced is not materially misstated or misleading.
- 5 Within the public sector there is a long history of reporting non-financial information, with accountants, auditors and others providing comfort on the information being produced. With continued growth in the reporting and use of non-financial information, such as NHS health-care data and sustainability reporting, accountants are increasingly being approached to provide assurance on non-financial information. The localism agenda may also see an increase in the scrutiny of information considered to be relevant by the local community.
- 6 International Standard on Assurance Engagements 3000 (ISAE 3000), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board (IAASB) provides a framework for the provision of such assurance. Developments in this area are also reflected by the consultation paper issued by the International Public Sector Accounting Standards Board (IPSASB) *Reporting Service Performance Information*.
- 7 There are also several examples where the principles of an ISAE 3000 engagement have been addressed in the bespoke assurance frameworks designed by public sector audit agencies such as the National Audit Office (NAO) and the Audit Commission to address specific non-financial information reported by public sector bodies.

## OBJECTIVES

- 8 This publication considers the core principles relevant to standard-setters, preparers and assurance providers when developing assurance frameworks for the reporting of non-financial information in the public sector. It looks at the key considerations and options for the development of a non-financial information assurance framework, and provides real-life examples to illustrate the good practice applied in the public sector.
- 9 It does not cover matters specific to the assurance provider in relation to compliance with ISAE 3000 – for example independence and engagement quality control. Guidance on these matters can be found in the ICAEW publication *Assurance on Non-Financial Information – Existing Practices and Issues* and ISAE 3000.
- 10 The aim of this publication is therefore to assist stakeholders involved in existing frameworks and those developing new frameworks. The publication identifies steps on a journey from a situation where non-financial information is not currently being produced, or where assurance is not currently provided, to a position where an assurance report can be provided on non-financial information. Alternatives to an ISAE 3000-based assurance engagement are also discussed to show other ways of providing assistance in the production of reliable non-financial information. Guidance on the full range of services that accountants provide can be found in the ICAEW *Assurance Sourcebook*.



# NON-FINANCIAL REPORTING ASSURANCE ENGAGEMENTS

## REQUIREMENT TO REPORT NON-FINANCIAL INFORMATION

- 11 Public sector bodies publish a diverse range of non-financial information. Examples include:
- NHS – healthcare data such as waiting times and survival rates
  - local authorities – performance data on the delivery of local services
  - central government – performance data and sustainability information
  - education institutions – student numbers.
- 12 For some public sector bodies there is a statutory requirement to report non-financial information. In other cases, such as the reporting of student numbers, it forms part of the terms and conditions for the provision of funding, as well as providing useful information for policy decisions. In all cases, the reporting of non-financial information provides accountability, to Parliament, government, service users and members of the public.

### Performance frameworks

- 13 It is important to recognise that reporting non-financial information forms part of an entity's performance framework – the process by which information is collected, processed, monitored and used in the entity's decision making and resource allocation. Understanding performance frameworks is therefore a key part of developing a non-financial information assurance framework.
- 14 In 2001, the NAO, HM Treasury, Cabinet Office, Audit Commission and the Office for National Statistics (ONS) jointly published *Choosing the right FABRIC – A Framework for Performance Information*. The basic principles set out in the publication remain applicable today and state that a performance framework should be:
- **focused** on the organisation's aims and objectives;
  - **appropriate** to, and useful for, the stakeholders that are likely to use it;
  - **balanced**, giving a picture of what the organisation is doing, covering all significant areas of work;
  - **robust** in order to withstand organisational changes or individuals leaving;
  - **integrated** into the organisation, being part of the business planning and management process; and
  - **cost** effective, balancing the benefits of the information against the costs.
- 15 In its 2009 publication, *Performance Frameworks and Board Reporting*, the NAO looked at the effectiveness of board decision making. This included consideration of the importance of the performance information presented to the board for monitoring and decision making. The publication highlighted that performance information should:
- be based on valid measures;
  - use high quality data;
  - be reported in context; and
  - be presented with analysis and commentary.
- 16 The principles relating to performance frameworks and performance information set out above are equally relevant to publically available information and the development of a non-financial information reporting framework, which is itself a subset of the overall performance framework of the entity. Indeed, it is important that reporting of non-financial information is seen in this wider context, and not as a separate exercise in itself. There is also evidence to suggest that entities that have difficulty in producing financial information are more likely to encounter problems producing non-financial information.

### Performance information systems

- 17 In their work, the NAO and others have highlighted the importance of using the performance framework to manage and improve performance. This can be achieved by using performance information alongside financial information, using performance information for decision making and creating a performance culture within the public sector bodies. One key way of achieving this is for the performance framework to be built into the systems used by the public body so that performance reporting becomes part of business as usual.

- 18 Such an approach is widely adopted by many private and public sector bodies. Key non-financial performance indicators that are critical to the success of the business are identified and the systems for data collection and reporting are built to address these areas. This information is then reported to management on a timely basis for use in the decision-making process.
- 19 In the public sector, non-financial information is invariably central to the activities of the entity. For example, the student numbers data reported to the Higher Education Funding Council in England (HEFCE) has determined the funding received by the higher education institution (although with effect from 2012, there will be a shift from HEFCE funding to payment of fees by students and the Student Loans Company). In this situation, the higher education institution has an incentive to invest in the quality of its data systems and to take an active interest in the non-financial information that is produced.
- 20 However, in some cases, public sector bodies may think that the non-financial reporting requirements are not core to their operations, particularly if they feel reporting requirements have been imposed on them. As a result, the systems and non-financial information produced may not receive an appropriate level of attention. This can create a disconnect between the reporting of non-financial information and the core activities of the entity. At its worst, this can result in non-financial information receiving little attention and being seen as an additional burden, rather than a key part of the entity's performance management framework.
- 21 In its review of the data systems supporting the production of non-financial information on the achievement of Public Service Agreements and Departmental Strategic Objectives, the NAO identified that in some cases there was a mismatch between the data collected by the systems and the information that Departments were required to report on. This is an example of a situation where little comfort can be given to users over the data quality unless appropriate changes are made to align the systems and reporting requirements. In turn, a lack of alignment may mean that sub-optimal decisions are made if the data is used by those involved in policy decisions and resource allocation.

#### Consultation with stakeholders

- 22 While some non-financial reporting requirements may be mandated by government, consultation with stakeholders can help them to understand the reasons for the reporting requirements and gain commitment from those affected. Such consultation also allows the preparer's perspective to be heard and can help to identify potential issues that could affect the ability of the information to be produced, which can impact on the conclusion provided. For example, reporting entities may not have adequate systems in place to collect the information, or measurement standards may be unclear. Identification of such matters early in the development of new reporting requirements and any associated assurance framework should assist in determining how these issues can be addressed.

#### **Case Study 1: NHS Quality Reports – involvement in developing the framework**

In developing a new assurance framework for Quality Reports, Monitor (the regulator for NHS Foundation Trusts) has consulted with stakeholders throughout the process. This has allowed the views of the regulator, the NHS Foundation Trusts, (as preparers of the information) and accountants (as the providers of assurance) to be taken into account in developing the non-financial reporting and assurance framework.

#### **HEFCE – consultation on changes to arrangements**

Similarly, in considering amendments to its existing non-financial reporting frameworks, HEFCE seeks to consult with higher-education institutions so that it is able to explain the reasons for the changes, and institutions are able to voice any concerns or areas for further consideration.

## REQUIREMENT FOR THE PROVISION OF ASSURANCE

### Alternative options

- 23 Assurance over non-financial information provides users of such information with comfort that it is reliable. However, other options exist to reassure users that non-financial information has been prepared properly. These alternatives include self-certification by preparers and the use of suitably qualified professionals to produce the information under recognised standards. In deciding whether assurance is required, and in what form, these alternatives should also be considered.
- 24 There may be circumstances where it is not possible or appropriate to provide assurance over the information in question – for example the information may be very subjective or incapable of precise measurement. Where such situations are identified, other approaches such as the use of experts in the preparation of the information may provide comfort to users of the information. As an example of this, a summary of the approach used for the production of National Statistics is set out below.

#### Case Study 2: Production of Government statistics

The government produces a large amount of quantitative data. A significant proportion is categorised as ‘Official Statistics’. As such, collection, preparation and publication of the data are subject to the ‘Code of Practice for Official Statistics’, which incorporates a wide range of principles, protocols and good practices. Adherence to these requirements is a statutory duty if the UK Statistics Authority have formally assessed the statistics and designated them as ‘National Statistics’ – a label that signifies full compliance with the Code. The majority of official statistics are produced by professional members of the Government Statistical Service (GSS) who, while employed by the relevant department, are also accountable to the National Statistician as the Chief Executive of the UK Statistics Authority and head of the GSS. Members of the GSS are also subject to other responsibilities and obligations as professional statisticians. Furthermore, production of the data is subject to ongoing monitoring by the UK Statistics Authority which has a statutory duty to assess whether the required standards are being maintained.

- 25 Given their experience in the collection and production of data, the involvement of a statistician in the development of non-financial reporting frameworks is also likely to be beneficial, including advice on the viability of an assurance engagement, determination of data sets and the design of data systems.

### Assurance engagements

- 26 Where external assurance is required over non-financial information, ISAE 3000 sets out two types of non-audit assurance engagements:
- reasonable assurance; and
  - limited assurance.
- 27 A reasonable assurance engagement is designed to deliver a positive conclusion and is based on accountants having reduced the risk of giving an inappropriate conclusion to an acceptably low level through the procedures that they undertake.
- 28 A limited assurance engagement is one where the work undertaken by accountants does not allow them to express a reasonable assurance conclusion, but is deemed sufficient to allow accountants to reach their conclusion in a negative form of expression.
- 29 By its very nature, a limited assurance engagement will therefore require less work than a reasonable assurance engagement in order to reach a conclusion. All other things being equal, a limited assurance engagement is therefore less costly than a reasonable assurance engagement. Another factor to consider in determining the most appropriate form of reporting is the form of comfort or assurance required by users of the information. For

example, users may be happy with a limited assurance opinion in certain situations, but a reasonable assurance opinion may be sought in other cases.

#### Alternative services

- 30 In addition to a non-audit assurance engagement, accountants are also able to offer alternative services relating to the reporting of non-financial information. These services can involve:
- review of the arrangements that are in place for collecting and reporting data;
  - review of the data that has been produced;
  - compiling a narrative report; and
  - setting out the findings from the work and any recommendations to improve the non-financial information.
- 31 Indeed, there are many examples of work undertaken on non-financial information in the public sector where the output is a narrative report rather than an assurance report. Previous examples of this include work undertaken by the NAO on the data systems for Public Service Agreements and Departmental Strategic Objectives and work under the Audit Commission's framework for Local Government Data Quality.
- 32 A review and recommendations approach can also be used as a step on the journey to creating a robust non-financial reporting assurance framework under ISAE 3000. Such an approach allows the preparer to initially produce non-financial information for review by an accountant. The resulting report and recommendations can then be used to inform the areas where additional work is required by the preparer. It may also identify areas of the reporting and assurance framework, such as measurement requirements or criteria for assessment, that require further consideration. Once these areas have been addressed, it should be possible for the preparer to produce non-financial information that will stand up to the scrutiny of an ISAE 3000-based non-audit assurance engagement and lead to an unqualified assurance conclusion.
- 33 Past experience has shown that it is better to resolve any underlying issues with data collection and reporting before requesting an assurance report, otherwise it runs the risk of a qualified assurance conclusion. Assuming that the desired outcome is for the reporting entity to receive an unqualified conclusion and for qualified conclusions to be an exception, some initial consideration of the non-financial reporting framework by the proposed assurance providers will typically be an important step towards implementing a new assurance framework for non-financial information.

#### **Case Study 3: NHS Quality Reports – incremental approach to development of the framework**

In developing the assurance framework for healthcare information produced by NHS Foundation Trusts in their Quality Reports, Monitor has taken an incremental approach:

Year 1 – Narrative report to the governors of the Foundation Trust produced by the auditor, setting out the results of their work and recommendations for improvement.

Year 2 – Limited assurance report on the preparation of the Quality Report in accordance with Monitor's guidance and a narrative report on certain key performance indicators specified by Monitor.

Year 3 – Limited assurance report on the preparation of the Quality Report and certain key performance indicators specified by Monitor.

- 34 An important factor in determining which form of assurance is most appropriate, or deciding between an assurance engagement and alternative services, may be the cost of the work and the perceived benefits of the different approaches. An assurance engagement will, all other things being equal, typically be more expensive than alternative services, as it is necessary for the assurance provider to comply with relevant standards such as ISAE 3000.

## Assurance providers

- 35 As well as deciding whether an assurance report is required, and in what form, it is also appropriate to consider who provides the assurance. In many cases, the auditor of the entity is engaged to provide non-audit assurance services, as they will have prior knowledge of the entity and its systems. However, there are examples where an accountant or other expert is employed directly by a regulator to undertake the work at each of the reporting entities. In this case, the accountant is the expert in responding to the reporting requirements and is also better placed to consider data collection and reporting issues across the whole population of entities that produce the information.

### Case Study 4: HEFCE – use of centrally sourced assurance providers

The HEFCE data audit reports on student numbers are undertaken by accountants employed directly by HEFCE. The accountants visit several education institutions to undertake the work and are familiar with the requirements of the data audits. This approach allows the accountant to compare the systems in place at various education institutions and to identify common issues. These issues and suggested responses are then shared with others in guidance produced by HEFCE.

- 36 Where the nature of the subject matter is such that an accountant cannot reasonably be expected to be an expert in the area, then it may be necessary for other experts to be used. For example, the Audit Commission's work on the Payment by Results Data Assurance Framework in the NHS has used 'accredited clinical coding auditors' who apply the Connecting for Health Coding Audit Methodology.
- 37 In some cases, it may also be appropriate and cost-effective for work on non-financial information to be undertaken by the entity's internal auditors. While internal audit is a management function and therefore does not offer the same level of independence as an external assurance provider, internal audit may already undertake work on these areas as part of its internal control function and can offer appropriate expertise to perform work that provides comfort on non-financial information.
- 38 Even where an external assurance provider is required, a number of non-financial reporting assurance frameworks in the public sector expect internal audit to undertake work on the relevant systems and data. The external assurance provider is then able to make use of this work, as appropriate. Such an approach can offer efficiencies and reduce the cost of requiring external assurance.

## SUBJECT MATTER

- 39 For assurance to be provided over non-financial information, it is essential that the subject matter on which the assurance is to be provided is appropriate. The IAASB *International Framework for Assurance Engagements* defines an appropriate subject matter as one that is:
- identifiable, and capable of consistent evaluation or measurement against the identified criteria; and
  - 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.
- 40 In determining the subject matter, it may also be important to consider what information is available or capable of being produced from the entity's existing systems. Where there is a mismatch between the non-financial information to be reported and what can actually be produced by the entity's systems, then either the subject matter will need to be revised or investment made in modifying existing systems or implementing new ones. Such changes will invariably mean that it will take longer to reach a situation where assurance can be given over the non-financial information in question and there are likely to be additional costs.

41 In reviewing the systems that produced non-financial information on Public Service Agreements and Departmental Strategic Objectives in connection with the 2002 comprehensive spending review, the NAO concluded that 23% of systems in place were not fit for the purpose of producing the required information. This was reduced in subsequent years, but still stood at 11% in respect of the 2007 comprehensive spending review. One of the main reasons for the NAO's conclusions was a mismatch between the non-financial information to be reported and systems being used to produce the information.

## SCOPE OF WORK

42 The work undertaken by the NAO on Public Service Agreements and Departmental Strategic Objectives was also restricted to the data systems rather than the output from the systems. This highlights the need for the systems to be fit for purpose before it is possible to extend or change the scope of the work to include the outputs from these systems. It is also an example of a situation where an extension of the scope of work to cover the reported information would increase the cost of the work without delivering real benefit if the systems are not capable of producing the required information.

43 The decision by Monitor to restrict the work undertaken on the non-financial information in NHS Foundation Trust Quality Reports to certain specified indicators is another example of where the scope of work has been set with due regard to the costs and benefits of seeking to obtain assurance over all of the non-financial information in the Quality Report. In addition, while the assurance conclusion on the Quality Report covers the preparation on the report and the specified indicators, it does not specifically deal with the underlying systems. To do this would require further work at additional cost.

44 The Audit Commission adopted a similar targeted approach for the local government data quality work undertaken between 2006 and 2010. This work consisted of a high-level review of management arrangements relating to data quality and data quality spot checks on a specified subset of the performance indicators reported by the local authority.

### **Case Study 5: Audit Commission – risk-based approach to determining the scope of work**

The assurance framework on local government data quality was based on a three-stage approach:

- review of management arrangements;
- analytical procedures; and
- detailed testing of individual performance indicators.

The performance indicators subject to detailed testing consisted of a subset of approximately 20 of the total number of performance indicators produced by the local authority. The exact number of performance indicators tested was then determined by a risk assessment covering the nature of the entity, previous knowledge and experience, and the results of the review of management arrangements and the analytical procedures. This resulted in between one and 12 performance indicators being tested and formally reported on.

45 Where the scope of work does not cover all of the non-financial information that is being reported, the systems used to generate the information or the systems but not the data itself, it is important that the extent of the work undertaken is made clear to the reader of the accountants' report so that it does not give a misleading impression.

## CRITERIA FOR ASSESSMENT

46 Once an appropriate subject matter has been set, it is necessary to establish the criteria that will be used to assess the non-financial information that is being produced. Based on the requirements of the IAASB *International Framework for Assurance Engagements*, such criteria need to be:

- relevant – relevant criteria contribute to conclusions that help users to make decisions;
  - complete – so that relevant factors that affect the conclusions are not left out;
  - reliable – to allow consistent evaluation of information;
  - neutral – free from bias; and
  - understandable – criteria contribute to clear and comprehensive conclusions that are not subject to significantly different interpretations.
- 47 The Audit Commission has undertaken a significant amount of work in connection with data quality and in doing so has based much of its work around the characteristics of:
- accuracy;
  - validity;
  - reliability;
  - timeliness;
  - relevance; and
  - completeness.
- 48 While criteria used to assess the subject matter, for example industry standards, may already exist, in other cases the criteria will need to be developed to address the specific reporting requirements. Where the same reporting requirements apply to parts of the public sector, it is important that the same criteria are used to allow comparison across entities. If standard criteria are not used, then differences are likely to exist in those applied by individual public sector bodies and assurance providers. Users of the information may also be confused as to why different criteria are being applied to assess the same information being produced by similar entities. For the same reasons, it is also important that the criteria are established at an appropriate level of detail. If this is not the case, then different interpretations may be applied.

#### **Case Study 6: Audit Commission – guidance and work programmes**

For many years, the Audit Commission produced detailed guidance and work programmes for auditors in respect of the assurance frameworks on non-financial information that it established. This guidance included comprehensive criteria for judgement when assessing the relevant subject matter topic. For each performance indicator within scope for detailed testing, the Audit Commission provided definitions, measurement criteria, details of applicable guidance used in the preparation of the indicator, a testing schedule and details of the materiality to be applied to the indicator when assessing the results of the testing.

- 49 The absence of an appropriate and robust framework, including detailed criteria for assessment, can make the process of providing assurance over the reported information very difficult. It also increases the risk of inconsistency between different assurance providers. Such an outcome is clearly undesirable if the resulting reports are to be compared between similar public sector bodies and the data used in policy and resource allocation decision making.
- 50 Even where an appropriate and robust framework is in place, differences of judgement can still exist between assurance providers. To address this risk, the Audit Commission has used quality assurance processes to compare the results of the work undertaken and the judgements reached by different assurance providers. While this incurs additional cost, such an approach helps to ensure that all of the public sector bodies reporting the non-financial information are treated equally.
- 51 It is also important that users of the assurance report are aware of the criteria that have been used to assess the information that has been reported. This can be done in several ways. One of the most effective ways to do this is to publish the criteria on an appropriate website and include a reference to this in the assurance report. This helps to avoid the assurance report containing lengthy details of the criteria used and thereby detracting from the conclusion included in the report. However, if this approach is adopted, arrangements will need to be put in place to maintain the website and keep the content up to date. An alternative way to make the criteria available without detracting from the report is to attach them as an appendix to the report.

## MATERIALITY

- 52 The concept of materiality in the context of financial statements is well understood. Professional guidance exists, providing consistency in the practices and methodology adopted by different auditors. Such guidance covers both the quantitative and qualitative aspects of materiality. Qualitative matters are those that may not necessarily be material in pure quantitative terms, but may be viewed as material because of the specific impact that they have on the reported results or the nature of the matter itself, where a certain level of precision or absolute accuracy is expected.
- 53 Materiality is just as important to the assessment of non-financial information as it is for financial information. However, the differing nature of the non-financial information produced and the absence of any specific guidance for this type of work means that there are no equivalent rules of thumb when setting materiality for non-financial information. The qualitative aspects of materiality for non-financial information may also vary significantly, especially where reporting against targets and performance is judged on whether or not the target has been met or where the information is of a sensitive nature (for example mortality rates). It is therefore important that materiality is considered when developing an assurance framework for non-financial information.
- 54 Matters to consider when setting materiality include:
- the level of precision that it is reasonable to expect the information to be reported at;
  - users' expectations regarding the accuracy of the information; and
  - cost implications of setting materiality at a specific level.
- 55 Both quantitative and qualitative matters also need to be considered, such as any areas where absolute accuracy is required or situations where a small change would impact on whether or not a performance target is met or reported performance has improved or declined.
- 56 Given the importance of the materiality concept to the extent of the work undertaken, the level of materiality to be applied should be set out in the engagement letter for the work if it is not specified in the relevant guidance. The engagement letter, or guidance, should also cover any areas where the qualitative aspects of materiality need to be considered.
- 57 Consideration should also be given to the scope of the engagement when setting materiality. Where the scope of work is confined to certain discrete areas then a low level of materiality is likely to introduce a level of precision in the assessment of the specified information that is at odds with the limited scope of the assurance report as a whole.
- 58 If decisions regarding materiality for non-financial information are left to individual assurance providers then there is a risk that different levels of materiality will be used. This lack of consistency is likely to have an impact on the assurance conclusions reached, with non-financial information being assessed as free from material misstatement by some assurance providers but others reaching a different judgement. Users of the non-financial information may also struggle to understand why something is material to one assurance provider but not another.
- 59 In an attempt to mitigate the risks associated with different materiality levels being applied, the materiality level used can be disclosed in the assurance report. However, where the same reporting requirements apply across a number of public bodies, it is more appropriate for the materiality levels to be set for the population as a whole in any relevant guidance, so that a consistent approach is adopted.

## REPORTING

- 60 The type of assurance report issued should reflect the nature of the assurance engagement that has been undertaken.
- For a reasonable assurance engagement, the conclusion is expressed in a positive form, for example: 'In our opinion the information on patient waiting times is fairly stated'.



- For a limited assurance engagement, the conclusion is expressed in a negative form, for example: 'Based on our work, nothing has come to our attention that causes us to believe that the reported patient waiting times are materially misstated'.
- 61 While not specifically covered by ISAE 3000, it is also possible to issue a hybrid report that includes both reasonable and limited assurance conclusions. An example of this could be limited assurance over the systems used to produce the non-financial information and reasonable assurance over the non-financial information that has been subject to detailed testing.
- 62 While the desired outcome from a non-audit assurance framework on non-financial information is an unqualified conclusion, there are likely to be situations where the assurance provider's report is qualified in some respects. Where such qualifications occur, the impact on the reporting entity should be covered by the relevant reporting and assurance framework that has been put in place. This could, for example, require the underlying issues giving rise to the qualification to be addressed, the information to be reproduced or an explanation of the reasons for the problems to be disclosed.
- 63 Where misstatements are identified in non-financial information it is also important to consider whether this represents an error or a weakness in the systems used to produce the data, or whether there has been deliberate misreporting. Where deliberate misreporting has occurred, additional reporting requirements may apply, such as referral to a regulator or the relevant Secretary of State. It would be appropriate for these requirements to be dealt with in the relevant guidance that is produced.
- 64 In situations where the engagement does not constitute a non-audit assurance engagement, the output is likely to be a narrative report setting out details of the work undertaken, the results of the testing and any recommendations. While such reports do not normally include a conclusion on the non-financial information or data systems, they will often contain sufficient information for the reader of the report to make their own judgement on the non-financial information that has been produced. They can also contain far more detailed information than an ISAE 3000 report and therefore may also be of greater value to the users of the report than an assurance conclusion.

## OTHER MATTERS

### Documentation

- 65 The detailed guidance that accompanies public sector assurance frameworks often includes standard documentation requirements or documentation templates and tools. This helps to promote consistency and can also have the benefit of clearly setting out the criteria for assessment. The standardisation of documentation is generally of most benefit where the scope of work is specified and public bodies are relatively homogeneous or where the work is carried out by a large number of different assurance providers.

#### **Case Study 7: Audit Commission – documentation templates and tools**

The Audit Commission has made widespread use of documentation templates and tools for a number of the frameworks that it has established. As well as promoting consistency, this has reduced the burden on individual assurance providers having to produce their own documentation templates and tools. The standardisation of the documentation has also assisted with the quality assurance of conclusions at a regional and national level and made the quality review procedures undertaken by the Audit Commission more straightforward than would otherwise have been the case had different approaches to documentation been adopted.

## Frequency

66 While detailed work on non-financial information often takes place on an annual basis, there are some examples in the public sector where testing is undertaken less frequently. Such frameworks may be risk based, have a cyclical timetable or combine the two. In deciding if this is an appropriate approach, it should be recognised that no external assurance or comfort is provided in respect of periods where the non-financial information has not been subject to testing. It is also likely that a risk based or cyclical approach will be more suitable for well-established, rather than new, non-financial information reporting frameworks.

### **Case Study 8: HEFCE – risk-based approach to reviews**

HEFCE adopts a risk-based approach to its data audits of higher education institutions. In years where audits do not take place, the institutions are still required to self-certify the student numbers data that they provide to HEFCE and for appropriate governance procedures, monitoring and reporting to apply to the data systems. This approach reflects an established assurance framework in respect of student data that continues to develop each year and the alternative forms of comfort that HEFCE derives from the various other reports and confirmations that it receives each year from higher education institutions.

## Fees

67 The fees for work undertaken on non-financial information are normally paid by the reporting entity directly to the accountant. However, there are also situations where the cost of the work is met centrally, and individual entities do not pay for the work. This often works best where the work itself is centralised, and this is the approach that is adopted by HEFCE for its data quality audits of student data.

# FUTURE DEVELOPMENTS

## NEW REPORTING AREAS

### Sustainability

68 Sustainability reporting is a new area where many public sector bodies are required to report on various environmental matters. This is also an area where many private sector bodies already voluntarily report on sustainability and accountants are asked to undertake work on the information that is published. This can be a complex area as the information to be reported and the criteria for assessment are still being developed and refined. However, as standard practices are increasingly being established, there are several examples of where assurance has been provided on sustainability reports in the private sector by accountants. It should therefore be possible for appropriate assurance frameworks to be put in place for the public sector.

#### Case Study 9: HM Treasury – development of sustainability reporting

HM Treasury is developing its sustainability reporting requirements and similar arrangements are also being developed by the devolved administrations in Scotland and Wales. The HM Treasury reporting requirements cover greenhouse gas emissions, waste and consumption of finite resources. HM Treasury has adopted a staged approach involving the dry-run production of information with optional publication in year 1 and mandatory publication of the sustainability report in year 2. The information that is reported should be subject to a system of internal control and validation, and these arrangements also fall within the scope of the entity's governance statement. As yet, external assurance on the information in the sustainability report is not required. However, the intention is for such arrangements to be put in place.

69 Further guidance on sustainability reporting can be found in the IAASB Exposure Draft, ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements* issued in January 2011 and ICAEW's publication *Sustainability Assurance: Your Choice*.

### Local government

70 The government has made widespread changes to the arrangements for local authority performance reporting. At present, it is unclear what will replace the previous reporting arrangements, but the principle of local accountability remains in place. It is possible that new reporting requirements may therefore be established that require the involvement of accountants. In developing new reporting and assurance frameworks and guidance for non-financial information, lessons can be learnt from previous arrangements, including the examples of good practice in this publication.

### Localism

71 A move to localism may also see a shift from centrally determined performance information to reporting on matters that are most relevant to the local community. Indeed, the assurance framework for Foundation Trust Quality Reports already states that one of the indicators subject to detailed testing will be determined locally.

72 While the underlying issues in developing an appropriate and robust assurance framework remain unchanged, a more devolved approach to performance reporting and assurance may result in decisions regarding matters such as the criteria for assessment being made at a local level, rather than centrally, as has previously been the case. It is therefore important that those involved in such decisions at a local level are aware of the options and issues when developing an appropriate assurance framework over non-financial information. An awareness and understanding of previous arrangements will also assist in the development of more locally focused reporting and assurance frameworks.

## **REVISIONS TO ISAE 3000**

- 73 An exposure draft of ISAE 3000 (Revised) was issued in April 2011 and the consultation period ended on 1 September 2011. ISAE 3000 (Revised) is expected to be published by the end of 2012 and, as with any new or revised standard, the implementation date is likely to be deferred for a period of time. While the proposed revisions to ISAE 3000 do not significantly change the fundamental concepts of an ISAE 3000 engagement discussed in this publication, it is important that those involved in both new and existing assurance frameworks consider the revisions to ISAE 3000.

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# ABOUT THE AUTHOR



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Adrian is part of PwC's central Assurance Risk and Quality team where he provides technical guidance, training and support to the firm's Assurance practice. He has more than 15 years' experience of providing and supporting audit, accounting and consultancy services across the private and public sector. This has included provision of accounting advice, technical guidance and training to government departments, regulators and public audit agencies.

As well as chairing ICAEW's Public Sector Special Report of Accountants Panel, Adrian is a member of ICAEW's Special Reports of Accountants Panel and ICAEW's Public Sector Audit Committee. He has also been involved in various APB, CCAB and ICAEW working groups in relation to areas such as updating Practice Note 10, *Audit of Financial Statements of Public Sector Bodies in the United Kingdom*, bank audit reports and the impact of the Freedom of Information Act on accountants.

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