



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

7

Committee: IAASB

Meeting Location: Miami

Meeting Date: December 8-13, 2002

Assurance – Revision of ISAE 100

Objectives of Agenda Item

1. To review a draft “Framework for Assurance Engagements”
2. To provide sufficient appropriate guidance to enable the Task Force to present a revised draft Framework and a draft ISAE 2000 for approval to expose at the March 2003 meeting.

Background

The purpose of this project is to revise International Standard on Assurance Engagements (ISAE) 100 “Assurance Engagements.”

A chronology of this project was distributed in the papers for the June 2002 (Mexico) IAASB meeting. (Please contact michaelnugent@ifac.org if you would like a copy.) While papers were distributed for the September 2002 (Cape Town) IAASB meeting, they were not discussed by the full IAASB at that time.

Activities Since Last IAASB Discussions

1. Assurance Building Blocks

During October 2002, IAASB members and Technical Advisers were sent a document outlining 11 principles that the Task Force believed comprised the building blocks of a framework for assurance engagements. Embodied in the principles was an approach that the Task Force believed:

- focuses on clear communication to users of assurance reports,
- draws on both the “work effort view” and the “interaction of variables view”,
- eliminates some contentious terminology issues that do not affect the substance of the practitioner’s work or report,
- recognizes there are many possible permutations regarding subject matter characteristics, work effort and available evidence, and that it is not feasible to categorize and provide rules for all of them, and
- provides a sufficiently robust framework for practitioners to follow while allowing flexibility for future developments, including IAASB issuing Standards and guidance on specific subject matters.

The feedback received on the building blocks has been discussed by the Task Force, which has had three conference calls and a physical meeting since the September 2002 (Cape Town) IAASB

meeting. Agenda Item 7-A indicates how the Task Force has dealt with each of the building block principles in the revised Framework and ISAE 2000.

2. *GSC firms' issues*

The papers distributed for the September 2002 (Cape Town) IAASB meeting were related to a series of issues raised by the accounting firms on the Global Steering Committee of the International Forum on Accountancy Development (the GSC firms). The major issues raised therein and the manner in which the Task Force has dealt with them is summarized below. If any IAASB member or Technical Advisor would like another copy of the relevant September 2002 (Cape Town) meeting papers, please contact michaelnugent@ifac.org.

- (a) *Levels of assurance:* The GSC firms noted a number of times that there is ambiguity in the published ISAE 100 about whether a practitioner is permitted to undertake an assurance engagement where the assurance to be obtained/conveyed is less than moderate.

While the draft Framework does not use the term “moderate assurance” as such, it does restrict assurance engagements to two types: audit-level and review-level (paragraph 38). This, coupled with the definition of “assurance engagement” in paragraph 2, which is intended to include all engagements where the professional accountant conveys assurance, essentially prevents lower level assurance engagements being provided.

- (b) *Incidental assurance:* The GSC firms were concerned that consulting engagements that include some form of assurance as a minor part of the engagement but where the intended user does not expect the practitioner to have the degree of independence necessary for a fully-fledged “assurance engagement”, will unnecessarily fall under the ISAE (and therefore under the independence requirements for assurance engagements of the IFAC Code of Ethics for Professional Accountants (Code)).

The draft Framework, in footnote 2, discusses the distinction between an assurance engagement and a consulting engagement, and paragraph 6 notes that if an assurance engagement is part of a larger engagement, then ISAs and ISAEs apply only to the assurance portion of the engagement. Further, the footnote to paragraph 6 recognizes that in some very strictly defined circumstances, an engagement that includes professional opinions, views or wording from which a user may derive some assurance will not be an assurance engagement.

The Task Force also draws the attention of the IAASB to paragraph 8.15 of the Code, which includes exceptions from a number of the Code’s provisions when a restricted use report for an assurance engagement that is not a financial statements audit is issued (paragraph 8.15 of the Code is reproduced on the following page for information).

- (c) *Essential elements of an assurance engagement:* The GSC firms expressed concern about ambiguity in terms of which engagements are assurance engagements and which are not. The published version of ISAE 100 listed all the elements of an assurance engagement without attempting to give a concise definition.

The draft Framework, at paragraph 2, includes a concise definition of an assurance engagement, which is intended to include all engagements in which assurance is conveyed. Further, paragraph 8 states that a professional accountant does not undertake an assurance engagement unless it exhibits all the elements of an assurance engagement as noted in paragraph 9. This structure ensures that all engagements in which assurance is conveyed will have all the characteristics of an assurance engagement (including suitable criteria and sufficient appropriate evidence).

3. ISAE 2000

Under the proposed revision, the published ISA 100 will be split into two documents: a Framework that sets out the underlying concepts; and ISAE 2000, which establishes the blacklettered requirements in a more process-oriented approach. The Task Force has completed a detailed review of the attached draft Framework. However, while a version of ISAE 2000 has also been attached, it has not yet been discussed in detail by the Task Force – it has therefore been provided for reference only rather than for detailed review by the IAASB. The IAASB's time at the December 2002 (Miami) meeting will be directed to a detailed discussion of the Framework, following which both the Framework and ISAE 2000 will be revised with the intention of presenting both for approval at the March 2003 (Melbourne) IAASB meeting. Issues still under consideration by the Task Force include whether paragraphs similar to ISAE 2000.71 and .72 (re risk) should be included in the Framework instead of (or as well as) the ISAE, similarly whether generic statements about documentation and quality control should be included in the Framework. Also being considered is whether there is a need to include a specific requirement for the practitioner to consider the adequacy of disclosure in relation to the subject matter and the needs of users.

Material Presented

Agenda Paper 7-A Assurance Building Blocks
(Pages 753 – 760)

Agenda Paper 7-C Draft Framework for Assurance Engagements and Draft ISAE 2000
(Pages 761 – 786) (No mark-up from the published ISA 100 has been provided because the changes are too extensive to make a mark-up meaningful.)

Action Requested

1. The IAASB is asked to review the draft Framework and provide guidance to the Task Force.
2. The IAASB is asked to provide any editorial comments directly to staff.

Note: Paragraph 8.15 of the Code:

“In the case of an assurance report to a non-audit assurance client expressly restricted for use by identified users, the users of the report are considered to be knowledgeable as to the purpose, subject matter and limitations of the report through their participation in establishing the nature and scope of the firm's instructions to deliver the services, including the criteria by which the subject matter are to be evaluated. This knowledge and enhanced ability of the firm to communicate about safeguards with all users of the report increase the effectiveness of safeguards to independence in appearance. These circumstances may be taken into account by the firm in evaluating the threats to independence and considering the applicable safeguards necessary to eliminate the threats or reduce them to an acceptable level. At a minimum, it will be necessary to apply the provisions of this section in evaluating the independence of members of the assurance team and their immediate and **close family***. Further, if the firm had a material **financial interest***, whether direct or indirect, in the assurance client, the self-interest threat created would be so significant no safeguard could reduce the threat to an acceptable level. Limited consideration of any threats created by network firm interests and relationships may be sufficient.”

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