

Assurance Building Blocks

This paper outlines how the Task Force has dealt with the principles on which comment from IAASB members and Technical Advisors was sought in October 2002.

A. Principle	B. Significance/rationale
<p>1 The current ISAE 100 will be split into 2 documents. One (the Framework) will have no black letters and will cover all assurance engagements (including audit and review of financial statements). The other (ISAE 2000) will have black letters and will cover assurance engagements other than audits and reviews of financial statements. Parts of ISA 120 will be subsumed into the Framework.</p>	<p>This is consistent with the structure of the Handbook agreed for exposure at the September 2002 (Cape Town) meeting.</p> <p>The Task Force will make recommendations about any elements of ISA 120 that do not “fit” in the Framework but which should nonetheless be kept in the IAASB literature (and most likely merged with ISA 200 as noted at the September 2002 (in Cape Town) IAASB meeting).</p>

This principle has been applied in the structure of the drafts presented for discussion at the December 2002 (Miami) IAASB meeting.

At both their May 2002 and October 2002 meetings, the IAASB Consultative Advisory Group (CAG) suggested that the IAASB should develop a conceptual document articulating the theoretical underpinnings of the assurance function. If the IAASB were to do this in future, it would raise the question of whether the Framework being worked on currently (which is more descriptive than the document envisaged by CAG) is appropriately named. The Task Force decided the title “Framework for Assurance Engagements” is appropriate for the current document.

The only part of ISA 120 that is not covered in the Framework/ISAE 2000 or the ISAs, is ISA 120.19 “An auditor (includes an accountant engaged to perform compilation engagements) is associated with financial information when the auditor attaches a report to that information or consents to the use of the auditor’s name in a professional connection. If the auditor is not associated in this manner, third parties can assume no responsibility of the auditor. If the auditor learns that an entity is inappropriately using the auditor’s name in association with financial information, the auditor would require management to cease doing so and consider what further steps, if any, need to be taken, such as informing any known third party users of the information of the inappropriate use of the auditor’s name in connection with the information. The auditor may also believe it necessary to take other action, for example, to seek legal advice.”

<p>2 The Framework will apply to all professional accountants, whether in public practice or not, when performing assurance engagements. ISAE 2000 will apply only to public practitioners.</p>	<p>This is consistent with the current ISAE 100.</p> <p><i>Issue: The Task Force proposes to require professional accountants who are not in public practice and who are not independent, to disclose their lack of independence in any assurance report they issue.</i></p>
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The Framework does not have a boxed authority statement at the beginning of it (which ISAE 2000 does) and its introduction does not stipulate that it “applies” to all professional accountants. It is, however, worded to cover all professional accountants, whether in public practice or not, including explicit recognition in the 2nd bullet of paragraph 3 that assurance engagements can be provided by professional accountants not in public practice.

Paragraph 15 of the Framework, and footnotes 6 and 7 of ISAE 2000, provide guidance for disclosures in the assurance reports of professional accountants not in public practice who are not independent. The Task Force will liaise with the Ethics Committee to have these matters included as a requirement in the IFAC Code of Ethics for Professional Accountants (the Code). These disclosures do not relate to professional accountants who are in public practice because independence is a requirement for professional accountants in public practice. These disclosures are particularly directed to internal auditors (and other employees), although they also apply to Auditors-General and the like under the current definition of public practice in the Code, which excludes members in the public sector. The independence of public sector auditors is affected by the different institutional arrangements at the various levels of government (e.g., local, state and federal) in different countries. The Task Force will recommend to the IAASB Planning Committee that the applicability of all IAASB documents to the public sector be addressed in more detail.

The Task Force will liaise with the Ethics Committee to have the message of paragraph 8 of the Framework included in the Code so that professional accountants who are performing engagement they may not think of as assurance engagements will be more likely to become aware of it.

3 Practitioners <i>obtain</i> assurance and <i>provide</i> a conclusion that conveys that assurance.	This principle recognizes the substance and reality of how assurance engagements add value to information and that the assurance a user takes from a practitioner's report may be different from the assurance the practitioner obtains from the evidence gathering processes that represent the essence of what a practitioner does to reach a conclusion. Consequential changes to other documents will be needed (the IAASB Revisions Committee and others drafting documents will need to keep this in mind).
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This terminology has been used throughout the Framework and ISAE 2000, and will be noted in the Explanatory Memorandum when these documents are exposed.

4 Criteria must always be suitable for the engagement	<p>This principle sets a baseline for engagement acceptance.</p> <p>“Criteria in an assurance engagement need to be suitable to enable reasonably consistent evaluation or measurement of the subject matter within the context of professional judgment.” This wording is in the published ISA 100.</p> <p>Services that can be offered regarding subject matters for which criteria are evolving but not yet suitable, include:</p> <ul style="list-style-type: none"> • assurance re certain aspects of the subject matter if suitable criteria exist for those aspects (an example might be particular KPIs within a comprehensive report on non-financial performance that includes extensive narratives) • assurance re processes related to the subject matter if suitable criteria exist for those processes (an example might be the process of collecting and collating data for a comprehensive report on non-financial performance) • agreed-upon procedures (<i>Issue: ISA 920 covers only agreed-upon procedures regarding financial information – should the IAASB develop more generic guidance that can be applied to agreed-upon procedures regarding a broader range of subject matters?</i>)
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This principle is embodied in paragraph 29 of the Framework and in ISAE 2000.65. Also, guidance has been included in paragraph 27 of the Framework regarding the availability of the criteria. The gray letters in ISAE 2000.90(h) is also relevant. Paragraph 31 of the Framework notes alternative services that can be provided when the criteria are not suitable.

The Task Force would like feedback from the IAASB as to whether the guidance about determining the suitability of criteria is adequate to ensure consistent practice and if not, what type of guidance should be provided.

The Task Force will recommend to the IAASB Planning Committee that a project be commenced to provide generic guidance for agreed-upon procedures.

<p>5 If there is any inconsistency between the Framework or ISAE 2000 and the requirements of a specific Standard, the requirements of the specific Standard will take precedence.</p>	<p>This principle allows the IAASB to be flexible when it considers new issues in detail, in particular as ISAEs are written on specific subject matters (e.g., internal control, sustainability reporting).</p> <p>Not all circumstances that will arise in future can be adequately foreseen now, so the IAASB needs to retain a mechanism to deal with any instances of (real or apparent) inconsistency between the Framework/ISAE 2000 and what is considered appropriate when deliberating on a specific issue in detail.</p> <p>It should be noted that this potential to override the Framework can only be exercised by the IAASB following due process – it is not available to practitioners to apply <i>ad hoc</i>.</p> <p><i>Issue: Is the following wording appropriate for inclusion in the Framework: “If there is any inconsistency between this framework and the requirements of an ISA or ISAE, the Standard takes precedence,” or does explicitly acknowledging the potential for such inconsistencies reflect poorly on the IAASB and the Framework?</i></p>
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The boxed authority statement at the front of ISAE 2000, and ISAE 2000.02, say that the ISAE applies “where no specific ISAE(s) exist.” The Task Force believes this will provide sufficient flexibility for future developments.

As the Framework does not contain any black letters, it does not need to “override” the ISAs/ISAEs, so no mention of this matter is made in the Framework.

<p>6 Neither the “work effort view” nor the “interaction of variables view” will be specifically referred to.</p>	<p>These labels have tended to galvanize support or opposition behind one or other model and cloud consideration of the substantive, underlying issues.</p> <p>The Task Force considered a number of additional models of how to interpret and report variations in work effort, subject matter and available evidence. Like the interaction of variables view and the work effort view, each of these models had its own conceptual justification. However, no one model seemed to be definitively superior to the others and each has practical obstacles to overcome.</p> <p>The following principles arrived at by the Task Force incorporate elements of both the “work effort view” and the “interaction of variables view”, but it is not thought necessary (nor helpful) to give the resultant model a particular name.</p>
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The model implicit in the Framework and ISAE 2000, which has elements of both the “work effort view” and the “interaction of variables view”, has not been given a label.

<p>7 Detailed (audit-type) procedures will always lead to a positive expression of assurance (and vice versa, i.e., if a positive expression is used, detailed procedures will be required). These engagements will be referred to as “audits” in the Framework and ISAE 2000.</p> <p>Limited procedures (ordinarily inquiry and analytical procedures) will always lead to a negative expression of assurances (and vice versa). These engagements will be referred to as “reviews” in the Framework and ISAE 2000.</p>	<p>This principle identifies 2 distinct categories of work effort and equates each, inextricably, with a specific form of conclusion.</p> <p>The distinction between the 2 categories is based on the financial statements assurance model of audit and review.</p> <p>This approach addresses the concern raised at the June 2002 (Mexico) IAASB meeting that different forms of expression could be used in the same circumstances.</p> <p>While in fact there will be a myriad of variations in the nature, timing and extent of procedures from one engagement to the next, grouping work effort into 2 categories and associating each with a different form of conclusion allows the form of the conclusion to be used as a “code” for a standard level of work effort. As a communication device, this helps improve user understanding, particularly with respect to negative assurance where the conclusion has little if any meaning unless the level of work is understood by the intended user.</p>
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This principle has been applied with the following modifications:

- The terms “audit-level engagements” and “review-level engagements” have been used instead of simply “audits” and “reviews”, with ISAE 2000.05 acknowledging that these terms are used for ease of reference only and that various other names are used in practice.
- The negative form of expression is not confined only to review-level engagements, recognizing implicitly that the level of assurance conveyed could be less than that obtained.

The link between:

- the level of assurance risk
- the nature, timing and extent of procedures
- the conclusion, and
- the assurance conveyed

is summarized in the table at paragraph 4 of the Framework. These are core concepts and are elaborated on further in paragraphs 39 and 45 to 47.

<p>8 The labels “high assurance” and “moderate assurance” will not be used.</p>	<ul style="list-style-type: none"> • Much of the past difficulty with this project has had at its source, different meanings attributed to the term “moderate assurance”, rather than differences of substance about what the practitioner needs to do and how the practitioner needs to report in particular circumstances. The principles outlined in this paper clearly dictate what to do and how to report without reference to the term moderate assurance. This allows the IAASB to create a robust framework without the distraction of problematic terminology. • Not using the term “high assurance” means we don not have the difficulty of trying to reconcile why we say “high” in our Standards but “reasonable” in our report. • Describing as “moderate assurance,” a positively worded report that results from detailed (audit-type) procedures on a “soft” subject matter, is likely to be unnecessarily confusing (and perhaps unacceptable) when users want the highest reasonable level of assurance.
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While not attempting to outlaw the terms “high assurance” and “moderate assurance” at all, neither the Framework nor ISAE 2000 uses them (nor in fact do they use the term “level of assurance”). The terms “reasonable assurance” and “limited assurance” are used, and explained, in the Framework at paragraphs 45 to 47.

<p>9 Relevant characteristics of the subject matter (whether it is, for example: qualitative, prospective, subjective) are to be described in the practitioner’s report as appropriate to the circumstances.</p>	<p>This principle recognizes that the characteristics of different subject matter need to be taken into account by users when making decisions on the basis of “assured” information.</p>
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This principle is implemented in paragraph 25 of the Framework and ISAE 2000.90(c). It does not diminish the requirement (paragraph 24) for the subject matter to be identifiable, capable of consistent evaluation or measurement against suitable criteria and in a form that can be subjected to procedures for gathering evidence to support that evaluation or measurement. Also, ISAE 2000.90(h) requires disclosures about the criteria.

<p>10 There will be some circumstances in which an assurance report cannot meaningfully add to the credibility of the subject matter because of the combined effect of:</p> <ul style="list-style-type: none"> • limited procedures, • the particular characteristics of the subject matter, and/or • limitation(s) in the available evidence. <p>These engagements should not be accepted.</p>	<p>This principle sets a baseline for engagement acceptance.</p> <p>It is a manifestation of the interaction of variables approach. In the same way that it has been difficult to articulate how the variables interact in a general sense, it will be difficult to be precise about the circumstances envisaged by this principle. It is likely therefore that a general statement will be best rather than trying to be too specific.</p>
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This principle is embodied in ISAE 2000.57.

<p>11 In all cases, any limitation in the quantity and quality of evidence will be either:</p> <ul style="list-style-type: none"> • particular to the circumstances of the engagement, in which case a qualified report is to be issued (scope limitation), or • inherent in the nature of the subject matter (e.g., when the subject matter is nearly wholly subjective, very little conclusive evidence might be expected to exist), in which case principle 9 above will require disclosure of this fact in the practitioner's report. 	<p>This principle recognizes that limitations in the quantity and quality of evidence available to the practitioner need to be taken into account by users when making decisions on the basis of "assured" information.</p> <p>The treatment of the limitation in the practitioner's report is dependant on its source.</p> <p>In drafting the document, the Task Force is cognizant of the need for care in ensuring circumstances that should lead to a qualification because of a scope limitation, are not misinterpreted (deliberately or otherwise) as an inherent limitation in the subject matter, which is only required to be described in the assurance report.</p>
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The quantity and quality of evidence available is discussed in paragraphs 40 to 42 of the Framework.

Also, the 1st bullet of this principle is embodied in ISAE 2000.93(b), and the second bullet, which is essentially a recognition of the fact that the quantity and quality of evidence will be different for different subject matters, has been implemented as discussed for Principle 9 above.

	<p><i>Other issue: the Task Force believes that oral reporting should only be allowed if it is accompanied by a written report. This recognizes the practical difficulties that oral reporting has in meeting the detailed reporting requirements of ISAE 100. Do you agree? Should this also apply to symbolic forms of expressing a conclusion, or would this unnecessarily stifle innovation?</i></p>
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This principle has been implemented in the Framework at paragraph 43 ("written" report) and is elaborated upon at ISAE 2000.87 and .88.

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