



**INTERNATIONAL FEDERATION  
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# Agenda Item 6

**Committee:** IAASB  
**Meeting Location:** Melbourne  
**Meeting Date:** 17-21 March 2003

## Assurance – revision of ISAE 100

### Objectives of Agenda Item

1. To approve for exposure, drafts of:
  - (a) International Framework for Assurance Engagements; and
  - (b) International Standard on Assurance Engagements (ISAE) 2000, *Assurance Engagements on Subject Matters Other Than Historical Financial Information*.
2. To approve the Explanatory Memorandum to be issued with the exposure drafts.
3. To note liaison with the Ethics Committee.

### Background

The background to this project is summarized in the draft Explanatory Memorandum in Agenda Item 6-A.

### Activities Since Last IAASB Discussions

At the Miami meeting, the Board provided feedback on a draft Framework. Since then, the Task Force has held a physical meeting, 2 videoconferences and a conference call.

### Issues

The major issues, including the position adopted regarding the interaction of variables view versus the work effort view, are outlined in the Explanatory Memorandum. Further explanation of certain issues is set out below:

#### 1. *Mutual Consent Engagements*

As directed by the Board in December (Miami), the Task Force reconsidered the “three party relationship” issue in light of the Board’s concerns which, as noted in the minutes, were: “its relevance as an element of an assurance engagement, its impact on the ability to conduct certain engagements, and its effectiveness in excluding consulting services from the scope of assurance engagements”. In this context, it also gave further consideration to the footnote in the draft Framework that reads:

An engagement that includes professional opinions, views or wording from which a user may derive some assurance is not an assurance engagement under this Framework if:

- (a) those opinions, views or wording are merely incidental to the overall engagement;
- (b) pursuant to a written understanding with the intended user, the engagement is not intended to be an assurance engagement; and
- (c) the engagement is not represented as an assurance engagement in the professional accountant's report.

While retaining the concept of a three party relationship in the definition of an assurance engagement, the Task Force has deleted the footnote quoted above in favor of creating a separate category of assurance engagements, which it has called mutual consent engagements. The Task Force believes that this change better serves the public interest because:

- It clearly limits the assurance engagements where ISAEs need not be applied to those that meet the stringent criteria noted in paragraph 8 of the Framework.
- It will allow for innovation and evolution in the development of criteria for emerging assurance engagements, which was a significant issue raised in connection with the decision not to allow criteria as a variable.

## 2. *Consulting*

The following text has been deleted from the previous draft, apart from the last sentence, which remains as footnote 8 in the Framework:

Consulting services employ the professional accountant's technical skills, education, observations, experiences, and knowledge of the consulting process. The consulting process is an analytical process that typically involves some combination of activities relating to objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of recommendations including actions, communication of results and sometimes implementation and follow-up. Where a report is issued, it is generally in the narrative (or "long form") style. Generally the work performed is only for the use and benefit of the client. The nature and scope of work is determined by agreement between the practitioner and the client. Any service that meets the definition of an assurance engagement is not a consulting service but an assurance engagement.

It was felt that the deleted text, which describes but does not define consulting services, was superfluous now that the draft includes a concise definition of an assurance engagement. The Board is asked whether it believes this text should be reinstated.

## 3. *Liaison with the IFAC Ethics Committee*

The Task Force is liaising with the Ethics Committee about the implications of the Assurance EDs for the IFAC "Code of Ethics for Professional Accountants". The Ethics Committee will be meeting in early April. Issues under consideration include:

- The timing and process for exposing consequential changes to the Code.
- Introduction of a concise definition of assurance engagements and other wording changes (the Code contains a number of extracts from the current ISAE 100 that will change significantly).
- Application of ethical principles, especially "independence" and "technical standards", to mutual consent engagements.
- Potential additions to the Code regarding: assurance engagements performed by professional accountants not in public practice (footnote 1 in the Framework); and practitioner association with a subject matter (paragraph 51 of the Framework).
- Professional accountants in the public sector – consistency of the Public Sector Perspective with any changes in the Code to the way the public sector is dealt with.

**Material Presented**

Agenda Item 6-A (Pages 195-200)	Draft Explanatory Memorandum, <i>Assurance Engagements Exposure Drafts and Proposed Withdrawal of ISA 120 'Framework of International Standards on Auditing'</i>
Agenda Item 6-B (Pages 201-214)	Draft ED, <i>International Framework for Assurance Engagements</i>
Agenda Item 6-C (Pages 215-226)	Draft ED, International Standard on Assurance Engagements (ISAE) 2000, <i>Assurance Engagements on Subject Matters Other Than Historical Financial Information</i>

**Action Requested**

1. IAASB is asked to review and approve for exposure, amended as necessary, the two EDs and the Explanatory Memorandum.
2. IAASB is asked to provide any editorial comments directly to staff, prior to the meeting where possible.

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