



**INTERNATIONAL FEDERATION  
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## **Agenda Item**

# **3**

**Committee:** IAASB

**Meeting Location:** Berlin

**Meeting Date:** December 8-12, 2003

### **Assurance Engagements**

#### **Objectives of Agenda Item**

To review and approve for issue:

- (a) International Framework for Assurance Engagements; and
- (b) International Standard on Assurance Engagements ISAE 2000 “Assurance Engagements Other Than the Audit or Review of Historical Financial Information”.

#### **Background**

The IAASB issued, in April 2003, exposure drafts (ED) of the above documents to replace ISAE 100 “Assurance Engagements” and ISA 120 “Framework of International Standards on Auditing”. The comment period ended on 30 June 2003, and 29 comment letters were received. At its October 2003 meeting, the IAASB considered the comment letters, reviewed draft revisions to the ED, and provided feedback for consideration by the Task Force.

#### **Activities Since Last IAASB Discussions**

- (a) IFAC Ethics Committee members were asked for input, particularly regarding the clarity of the definition of an assurance engagement as some concern had been expressed on this issue at their previous meeting;
- (b) The IAASB Consultative Advisory Group (CAG) was briefed and their input on the project was sought. CAG also discussed the possibility of a “conceptual framework” project;
- (c) Bob Waller, a plain language expert, reviewed the Tokyo drafts and provided suggestions for change; and
- (d) The Task Force had a 2-day meeting to consider the feedback from the IAASB, the Ethics Committee, CAG, and Mr Waller.

#### **Issues**

##### **1. ETHICS AND CAG**

While the Ethics Committee noted that they still had some concern about the clarity of the line dividing assurance from other engagements, they felt the October draft was considerably clearer than the ED and did not have any recommendations as to how to clarify the definition further.

CAG did not raise any substantive issues on the assurance documents directly, however, their views on the possibility of a “conceptual framework” project are worth noting. CAG are of the view that a small number of conceptual issues that will ultimately result in additions or changes to the Assurance Framework need further examination. CAG do not think a short term “fix” for these issues is appropriate, but rather see their resolution as part of an evolutionary approach to the continued development of the Assurance Framework. The issues identified by CAG include:

- (a) "Reasonable assurance". In particular:
  - The role of skepticism, the risk model and judgment;
  - Statistical sampling/confidence levels; and
  - How far do practitioners go when an apparent misstatement comes to their attention in a limited assurance engagement.
- (b) "Responsibility". In particular:
  - Accepting responsibility/division of responsibility; and
  - Reliance on experts, particularly in the context of "joint" engagements.
- (c) "Reporting/communication". In particular:
  - Qualitative characteristics of information provided by the practitioner;
  - Assurance as a classification exercise; and
  - The nature of interaction with stakeholders.

## 2. PLAIN LANGUAGE

As noted at the previous meeting, Jim Sylph had asked Bob Waller, a plain language expert, to review a number of IAASB documents, including the assurance drafts. Mr Sylph suggested that this may become a regular feature of the IAASB document development process. Many of the changes in the attached drafts result from suggestions made by Mr Waller. The guidelines Mr Waller followed in developing his suggestions included:

- Avoid wordy phrases and redundancies;
- Avoid nouns that should be verbs;
- Avoid words such as “herein”, “thereof” and other more formal language;
- Generally use the active voice rather than the passive voice;
- Avoid overlong sentences; and
- Convert a negative expression to one in positive form e.g. “not included” becomes “excluded”.

While not adopting all of Mr Waller’s suggestions, e.g., those that would result in inconsistency with recently issued IAASB documents, the Task Force found his review to be a very helpful and worthwhile exercise. The Task Force looks forward to a timely plain language review being included as a regular feature of the IAASB process.

## 3. IAASB FEEDBACK

A number of changes have been made to the draft as a result of feedback received at the Tokyo meeting. In addition, the IAASB asked the Task Force to consider the following suggestions:

- (a) *Include a request in the Framework for practitioners to feedback comments on the practical application of the Framework and ISAE 2000.* The Task Force thinks it is a good idea to actively seek feedback, but recommends that such a request be included in the media release

or on the IAASB website. Putting the request in the Framework itself may make the Framework seem tentative and uncertain.

- (b) *When the engagement is designed to meet the needs of specific intended users or for a specific purpose, require the practitioner to state that fact in their report.* The Task Force felt that such a requirement would be impractical, in particular given the difficulty in many engagements of precisely identifying all potential users and their needs. Rather than introduce a fixed requirement to always identify specific intended users (and purposes), the Task Force has expanded the discussion about users (see Framework paragraph 25) to help practitioners apply the current requirement to “consider stating this fact” (ISAE 2000.49 (d)).
- (c) *Provide guidance on using the work of an expert for engagements where there is joint responsibility and reporting by a practitioner and one or more experts.* ISAE 2000 (at paragraph 27) specifically excludes these situations. The Task Force agrees that this is likely to be a particularly important aspect for certain assurance engagements, but does not feel guidance should be given without a fuller examination of the issues than has been carried out to date. The Task Force recommends that input on this issue be sought from the Ethics Committee, and that it be specifically addressed:
- In the sustainability project (assuming that project is approved – a proposal is to be considered at the April 2004 meeting); and
  - By the Task Force revising ISA 620 “Using the Work of an Expert”.
- (d) *Add further requirements to distinguish long form assurance reports from other reports, e.g., add a requirement to mention ISAEs in the title of an assurance report.* The Task Force believes the requirements of ISAE 2000.49 (a) and (f) (and the Framework at paragraph 12) are sufficient at this time, but looks forward to any feedback on this point via the mechanism referred to in (a) above.
- (e) *Remove paragraph 57 (old 55) of the Framework.* The Task Force have added a heading to separate this paragraph from the reporting guidance, and believe that it should remain in the Framework at least until similar text is included in the Code of Ethics (or other appropriate place).
- (f) *Include a blackletter requirement to have an engagement letter for every engagement under ISAE 2000.* The Task Force believes that a rigid requirement would be inappropriate given the broad range of assurance engagements that will fall under ISAE 2000, and noted that the current wording of ISAE 2000.10 is already strong on this point.
- (g) *Reconsider certain of the basic issues raised in the FEE and IDW submissions, which were based on the FEE Issues Paper “Principles of Assurance: Fundamental Theoretical Issues with respect to Assurance in Assurance Engagements”.* The Task Force reconsidered the issues identified during the Tokyo meeting and made some further amendments to the drafts, particularly to clarify the distinction between an underlying subject matter, and the evaluation or measurement of that subject matter (the latter being what the practitioner obtains assurance about). The Task Force recognizes however that there still remain some areas of difference between the approaches advocated in the FEE paper and those adopted in attached drafts. The Task Force believes that these differences do not prevent the Framework and ISAE from achieving their objective, and are best dealt with via the evolutionary approach to the development of the Framework advocated by CAG (see Issue 1 above)

- (h) *Reconsider how the lower threshold for limited assurance engagements (ie, floor level of assurance) is described.* The Board asked the Task Force to consider alternative wording to “at least sufficient to obtain a meaningful level of assurance” (paragraph 42 of the Framework), suggesting the concept of relevance may be appropriate. After considerable discussion, the Task Force concluded that introducing the concept of relevance here would be inappropriate – it is no more precise than the current text and may be incomplete (as it is only one of the qualitative characteristics of information). The Task Force considered a number of other options, but decided to recommend that the idea of a “meaningful level of assurance” be retained with extra text added in paragraph 44 (old 42) to: (a) link it back to the definition and objectives of a limited assurance engagement, and (b) provide further guidance.

#### 4. EXPERTS’ COMPLIANCE WITH ISAEs

In reviewing the drafts, the Task Force decided to recommend deleting the following sentence in ISAE 2000.29: “The exercise of due care requires that the work of all persons involved in an assurance engagement comply with this ISAE, including the work of any experts who are not professional accountants”. It was felt this sentence created an unreasonable expectation that experts who are not professional accountants would be completely *au fait* with all aspects of the ISAEs. The Task Force believes the alternate wording now included in this paragraph conveys a more realistic and appropriate expectation.

#### Material Presented

Agenda Paper 3-A (Pages 1877–1896)	Marked-up draft: “International Framework for Assurance Engagements”
Agenda Paper 3-B (Pages 1897–1914)	Marked-up draft: International Standard on Assurance Engagements ISAE 2000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”
Agenda Paper 3-C (Pages 1915–1930)	Clean revised draft: “International Framework for Assurance Engagements”
Agenda Paper 3-D (Pages 1931–1944)	Clean revised draft: International Standard on Assurance Engagements ISAE 2000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”

#### Action Requested

1. IAASB is asked to review and approve the Framework and ISAE 2000 for issue.
2. IAASB is asked to approve withdrawal of ISAE 100 “Assurance Engagements” and ISA 120 “Framework of International Standards on Auditing”.