INTERNATIONAL FRAMEWORK FOR ENGAGEMENTS
PERFORMED BY PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

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Introduction

1. This Framework identifies a range of engagements performed by professional accountants in public practice (practitioners) and how they relate to standards of the International Auditing and Assurance Standards Board (IAASB), and deals with practitioner association with information. It provides a frame of reference for:

(a) Practitioners who perform engagements;
(b) Others parties involved with practitioners who perform engagements, including the intended users of a practitioner’s report and parties who engage a practitioner; and
(c) The IAASB in developing International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), International Standard on Related Service (ISRSs) and related pronouncements.

2. This Framework does not establish requirements for practitioners performing engagements governed by IAASB standards, such requirements are contained in the standards themselves. It does, however, offer guidance for practitioners performing engagements that are not covered by those standards and with respect to practitioner association with information.

Engagements Governed by the Standards of the IAASB

3. Engagements governed by the standards of the IAASB are: assurance engagements; and related service engagements.

Assurance Engagements

4. An assurance engagement is “an engagement in which a practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria.”

5. The outcome of the evaluation or measurement of an underlying subject matter is the information that results from applying the criteria to the underlying subject matter. For example:

- The recognition, measurement, presentation and disclosure represented in the financial statements (outcome) result from measuring an entity’s financial position, financial performance and cash flows (underlying subject matter) by applying a financial reporting framework, such as International Financial Reporting Standards (criteria).
- A statement about the effectiveness of internal control (outcome) results from evaluating the effectiveness of an entity’s internal control process (underlying subject matter) by applying a criteria such as those described in ISAE 3402 (criteria).

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1 Draft Revised ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information
2 ISAE 3402, Assurance Reports on Controls at a Service Organization
6. An assurance engagement may be part of a larger engagement, for example, when a business acquisition consulting engagement includes a requirement to convey assurance regarding historical or prospective financial information. In such circumstances, IAASB standards that apply to assurance engagements apply only to the assurance portion of the engagement.

7. Assurance engagements can be classified as being either: audits of historical financial information; reviews of historical financial information; or other assurance engagements. The standards that apply to each are as follows.

**Audits of Historical Financial Information**

8. Those reasonable assurance engagements where the subject matter information is historical financial statements or other historical financial information are commonly known as audits. Audits are governed by the ISAs. A list of extant ISAs is attached as Appendix 1 [NOT INCLUDED IN THIS VERSION].

**Reviews of Historical Financial Information**

9. Those limited assurance engagements where the subject matter information is historical financial statements or other historical financial information are commonly known as reviews. Reviews are governed by ISREs. Two ISREs are currently in effect, they are:

(a) ISRE 2400, *Engagements to Review Financial Statements*; and

(b) ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

**Other Assurance Engagements**

10. Assurance engagements that are not audits or reviews of historical financial information are governed by ISAEs.

11. The underlying subject matter of an assurance engagement other than audits or reviews of historical financial information can take many forms, such as the following (see also Appendix 2 for a classification of potential underlying subject matters and further examples):

- Non-financial performance or conditions (for example, performance of an entity) for which the subject matter information may be key indicators of efficiency and effectiveness.

- Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.

- Systems and processes (for example, an entity’s internal control or IT system) for which the subject matter information may be statement about design, implementation or operating effectiveness.

- Behavior (for example, corporate governance, compliance with regulation, human resource practices) for which the subject matter information may be a statement of compliance or a statement of effectiveness.
Specific Subject Matters

12. Two subject matter-specific ISAEs are currently in effect, they are:
   (a) ISAE 3400, The Examination of Prospective Financial Information; and
   (b) ISAE 3402, Assurance Reports on Controls at a Service Organization.

ISAE 3000

13. All assurance engagements that are not governed by a subject matter-specific ISAE, or by the ISAs or ISREs, are governed by ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

Related Service Engagements

14. Two types of related service engagements are governed by extant ISRS, as follows.

Engagements to Perform Agreed-upon Procedures regarding Financial Information

15. An agreed-upon procedures engagement regarding financial information is one in which “an auditor is engaged to carry out those procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. The recipients of the report form their own conclusions from the report by the auditor. The report is restricted to those parties that have agreed to the procedures to be performed since others, unaware of the reasons for the procedures may misinterpret the results.”\(^3\) These engagements are governed by ISRS 4400, Engagements to Perform Agreed-upon Procedures Regarding Financial Information.

Engagements to Compile Financial Statements

16. An engagement to compile financial statements is one in which “accounting expertise, as opposed to auditing expertise, is used to collect, classify and summarize financial information.”\(^4\) These engagements are governed by ISRS 4410, Engagements to Compile Financial Statements.

Ethical Principles and Quality Control Standards

17. IAASB standards are premised on the basis that:
   (a) The firm of which the practitioner performing the engagement is a member is subject to ISQC 1 or to other professional requirements, or requirements in laws or regulations regarding quality control for firms that are at least as demanding;\(^5\) and
   (b) The practitioner, members of the team performing the engagement, and the engagement quality control reviewer (if any) are subject to Parts A and B of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code), or other professional requirements, or requirements in laws or regulations, that are at least as demanding.

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\(^3\) Glossary

\(^4\) Glossary

\(^5\) International Standard on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements
18. Quality control within firms that perform assurance and related service engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being an integral part of the framework supporting high quality assurance engagements that are in the public interest. Professional accountants in public practice will be familiar with such requirements as part of their professional qualifications. If a competent practitioner other than a professional accountant in public practice chooses to represent compliance with an IAASB standards, it is important that ISQC 1 and the IESBA Code, or other professional requirements, or requirements in laws or regulations that are at least as demanding are followed.

Engagements not Governed by the Standards of the IAASB

19. Not all engagements performed by practitioners are assurance engagements or related service engagements. Other frequently performed engagements include:

- The preparation of tax returns where no conclusion conveying assurance is expressed.
- Consulting (or advisory) engagements, such as management and tax consulting. Consulting engagements employ a practitioner’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. Reports (if issued) are generally written in a 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 professional accountant and the client. Any service that meets the definition of an assurance engagement is not a consulting engagement.

20. In some engagements the practitioner has what is known as a derivative reporting responsibility, i.e., a responsibility to report to a party to the engagement or another party (for example, a regulator), a matter such as possible noncompliance with laws or regulations or matters the practitioner considers may be of interest to that party, when such matters come to the practitioner’s attention during the engagement, but where the practitioner has no responsibility to perform procedures to identify such matters. Having a derivative reporting responsibility does not make the engagement an assurance engagement because no procedures in addition to those carried out in the normal course of the engagement would be performed and, accordingly, a level of assurance that is meaningful to intended users about such matters will not be obtained.

21. The following engagements, which may meet the definition of an assurance engagement, need not be performed in accordance with International Standards that apply to assurance engagements, other than ISQC 1:

(a) Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters; and

(b) Engagements that include professional opinions, views or wording from which a user may derive some assurance, if all of the following apply:
(i) Those opinions, views or wording are merely incidental to the overall engagement;
(ii) Any written report issued is expressly restricted for use by only the intended users specified in the report;
(iii) Under a written understanding with the specified intended users, the engagement is not intended to be an assurance engagement; and
(iv) The engagement is not represented as an assurance engagement in the professional accountant’s report.

Engagement Acceptance

22. When a potential engagement cannot be accepted as an assurance engagement because it does not exhibit all the preconditions required by the ISAs, ISREs or ISAEs, the engaging party may be able to identify a different engagement that will meet the information needs of intended users. For example:

(a) If the original criteria were not suitable, an assurance engagement may still be performed if:

(i) The engaging party can identify an aspect of the original underlying subject matter for which those criteria are suitable, and the practitioner could perform an assurance engagement with respect to that aspect as an underlying subject matter in its own right. In such cases, the assurance report makes it clear that it does not relate to the original underlying subject matter in its entirety; or

(ii) Alternative criteria suitable for the underlying original subject matter can be selected or developed, and the engagement meets the other preconditions, for example, it has a rational purpose.

(b) The engaging party may request an engagement that is not an assurance engagement, such as related service engagement or a consulting engagement.

Reports on Non-Assurance Engagements

23. A practitioner reporting on an engagement that is not an assurance engagement performed in accordance with ISAs, ISREs or ISAEs, clearly distinguishes that report from an assurance report. So as not to confuse users, a report that is not an assurance report avoids, for example:

- Implying compliance with this Framework, ISAs, ISREs or ISAEs.
- Inappropriately using such words as “assurance,” “audit” or “review.”
- Including a statement that could reasonably be mistaken for a conclusion designed to enhance the degree of confidence of intended users about the outcome of the evaluation or measurement of an underlying subject matter against criteria.

24. The practitioner and the responsible party may agree to apply the principles of this Framework to an engagement when there are no intended users other than the
responsible party but where all other requirements of the ISAs, ISREs or ISAEs are met. In such cases, the practitioner’s report includes a statement restricting the use of the report to the responsible party.

**Association with information**

25. A practitioner is associated with a subject matter when the practitioner reports on information about that subject matter or consents to the use of the practitioner’s name in a professional connection with that subject matter. If the practitioner is not associated in this manner, third parties can assume no responsibility of the practitioner. If the practitioner learns that a party is inappropriately using the practitioner’s name in association with a subject matter, the practitioner requires the party to cease doing so. The practitioner also considers what other steps may be needed, such as informing any known third party users of the inappropriate use of the practitioner’s name or seeking legal advice.
Categorization of Underlying Subject Matters

The table below shows a categorization of the range of possible underlying subject matters with examples of some. While those categories for which no example is given exit, it is unlikely that assurance engagements with respect to them would be undertaken. The categorization is not necessarily complete, and the categories are not necessarily mutually exclusive. Also, in some cases, the examples are the subject matter information, in other cases they are the subject matter or merely an indication of the type of question that information could assist with, whichever is more meaningful in the circumstances.

<table>
<thead>
<tr>
<th>Information about:</th>
<th>Historical Information</th>
<th>Future Oriented Information</th>
</tr>
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<tbody>
<tr>
<td>Financial</td>
<td>Performance</td>
<td>• Forecast/projected cash flow</td>
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<td></td>
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<td>• Forecast/projected financial position</td>
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<tr>
<td></td>
<td>Position</td>
<td>• GHG statement</td>
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<td></td>
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<td>• KPIs</td>
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<td></td>
<td></td>
<td>• Statement on effective use of resources</td>
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<td></td>
<td></td>
<td>• Statement on Value for Money</td>
</tr>
<tr>
<td>Non-Financial</td>
<td>Performance/Use of Resources/Value for Money</td>
<td>• Expected emissions reductions attributable to a new in technology, or GHGs to be captured by planting trees</td>
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<tr>
<td></td>
<td></td>
<td>• Statement that a proposed action will provide value for money</td>
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<tr>
<td></td>
<td>Condition</td>
<td>• Description of a system/process, e.g. internal control at a service organization</td>
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<tr>
<td></td>
<td></td>
<td>• Physical characteristics, e.g., the size of leased property</td>
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<tr>
<td>System/Process</td>
<td>Design</td>
<td>• Effectiveness of the design of controls at a service organization</td>
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<tr>
<td></td>
<td></td>
<td>• Effectiveness of the design of proposed controls for a new production process</td>
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<tr>
<td>Operation/Performance</td>
<td></td>
<td>• Actual effectiveness of procedures for hiring and training staff</td>
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<tr>
<td>Aspects of Behavior</td>
<td>Compliance</td>
<td>• An entity’s compliance with e.g., loan covenants, or specific legal or regulatory requirements</td>
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<tr>
<td>Human Behavior</td>
<td></td>
<td>• Evaluation of audit committee effectiveness</td>
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<tr>
<td>Other</td>
<td></td>
<td>• The fitness for purpose of a software package</td>
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<td></td>
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<td>• An entity’s creditworthiness</td>
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## Appendix 3

### Differences Between Reasonable Assurance Engagements and Limited Assurance Engagements

This Appendix outlines the differences between a reasonable assurance engagement and a limited assurance engagement discussed in the Framework.

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<th>Type of engagement</th>
<th>Objective</th>
<th>Evidence-gathering procedures</th>
<th>The assurance report</th>
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| **Reasonable assurance engagement** | A reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement, as the basis for a positive form of expression of the practitioner’s conclusion | Sufficient appropriate evidence is obtained as part of a systematic engagement process that includes:  
- Obtaining an understanding of the engagement circumstances;  
- Assessing risks;  
- Responding to assessed risks;  
- Performing further procedures using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry. Such further procedures involve substantive procedures, including, where applicable, obtaining corroborating information, and depending on the nature of the underlying subject matter, tests of the operating effectiveness of controls; and  
- Evaluating the evidence obtained (Paragraphs 51 and 52) | Description of the engagement circumstances, and a positive form of expression of the conclusion |
| **Limited assurance engagement** | A reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner’s conclusion | Sufficient appropriate evidence is obtained as part of a systematic engagement process that includes obtaining an understanding of the underlying subject matter and other engagement circumstances, but in which procedures are deliberately limited relative to a reasonable assurance engagement | Description of the engagement circumstances, and a negative form of expression of the conclusion |

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6 A detailed discussion of evidence-gathering requirements is only possible within ISAEs for specific subject matters.
IFAC Code of Ethics for Professional Accountants

Engagements Governed by the Standards of the IAASB

International Framework for Engagements
Performed by Professional Accountants in Public Practice

ISQC 1–99 International Standards on Quality Control Standards

Audits and Reviews of Historical Financial Information

Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

Related Services Engagements

ISAs 100–999 International Standards on Auditing

ISREs 2000–2699 International Standards on Review Engagements

ISAEs 3000–3699 International Standards on Assurance Engagements

ISRSs 4000–4699 International Standards on Related Services

Engagements not Governed by the Standards of the IAASB

Consulting/Advisory

Tax

Other service

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