

Assurance Engagements—Issues and IAASB Task Force Proposals

Significant Changes

1. The following paragraphs summarize the reasons for the more significant changes made since the September 2010 IAASB meeting.
2. *Objectives (paragraph 6–7):*
 - (a) The objectives have been streamlined by removing the separate objective “To form a conclusion ...,” which some IAASB members found confusing. Reference to forming a conclusion has instead been included in sub-paragraph (a). The revised structure better aligns with ISA 200.¹
 - (b) The Task Force, having further considered the IAASB’s discussion at the September meeting, concluded that the term “planned level of assurance” could be seen to imply a level of precision beyond that which exists in reality. The term may also lead some readers to think that the Board is of the view that an actual, quantified, level of assurance could (and perhaps should) be calculated for assurance engagements, which is not the case. The term has therefore been removed from the objectives and the rest of the document.
3. *Definitions of reasonable assurance and limited assurance engagements:*
 - (a) The definitions of reasonable assurance engagement and limited assurance engagement in paragraph 8(a) were subject to much discussion at the September meeting. In particular, there was debate about whether the limited assurance definition should be expressed in terms of risks or procedures.² The revised definitions have now been closely aligned with the wording in the extant Assurance Framework³ and ISAE 3000. In particular, the concept of engagement risk has been reinserted in the definition of limited assurance, but a sentence putting this concept into an appropriate context with respect to procedures has been added.

Extant⁴	Draft
The objective of a reasonable assurance engagement is 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	Reasonable assurance engagement—An assurance engagement in which the practitioner reduces 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

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

² The conceptual issues associated with the risks versus procedures debate are addressed in Agenda Item 2.

³ *International Framework for Assurance Engagements*

⁴ Assurance Framework, paragraph 11 and Appendix; and ISAE 3000, paragraph 2

Extant⁴	Draft
<p>The objective of a limited assurance engagement is 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</p>	<p>Limited assurance engagement—An assurance engagement in which the practitioner reduces 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. This is achieved by performing a set of procedures that is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is meaningful to the intended users. The assurance report communicates the limited nature of the assurance obtained and uses the negative form of expression for the practitioner’s conclusion</p>

- (b) The term “sufficient appropriate evidence” has been removed from the definition of reasonable assurance engagement where it was redundant because it already appears in the definition of assurance engagement in paragraph 8(a). The Task Force has reviewed all uses of the term sufficient appropriate evidence throughout the draft.
4. *Definition of assurance skills and techniques:* Previously, assurance skills and techniques were defined only by contrast to subject matter skills and techniques (paragraph 8(b)). The Task Force has added “systematic planning, evidence gathering, evidence evaluation and reporting” to capture the essence of what assurance skills and techniques are.
 5. *Acceptance and continuance, and quality control:* The Task Force has restructured some of the paragraphs in these sections (paragraphs 15–31) to make the text flow more logically and to better align it with the ISAs and ISQC 1.
 6. *Reasonable basis:* The requirement for practitioner to determine whether the measurer or evaluator in the case of an attestation engagement acknowledges and understands its responsibility to have a reasonable basis for the subject matter information (old paragraph 19(b)) has been deleted. The Task Force considered that requirement to be unnecessarily onerous and complicated. For example, it would appear to rule out accepting an engagement in the circumstances described in paragraph A122. While it may be appropriate to decline an engagement in such circumstances, it was thought there should be greater scope for professional judgment, particularly as the potential circumstances in which ISAE 3000 will be applied are so broad. Paragraph 18(b)(iii), regarding access to the evidence needed to support the practitioner’s conclusion, is thought to adequately cover this matter.
 7. *Engagement risk:* Old paragraph 36 required the practitioner to consider relevant sources of engagement risk when planning and performing the assurance engagement. For reasonable assurance engagements, this requirement was not necessary because paragraph 40(a) already required the practitioner to identify and assess risks. So, to ensure that the consideration of

risks was placed in context in the draft, the Task Force added “consideration of risks of material misstatement” to paragraph 41(a) for limited assurance engagements, thus making old paragraph 36 redundant for both reasonable assurance and limited assurance engagements. Old paragraph 36 was, therefore, deleted.

8. *Meaningful to intended users*: Paragraph 41(a) requires the practitioner to obtain a level of assurance that is meaningful to intended users. Paragraph A99 has been developed to help operationalize this concept by providing guidance on relevant factors for the practitioner to consider when making this judgment in the circumstances of the engagement. This replaces the previous guidance that merely said: “To be meaningful, the planned level of assurance is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential” (old paragraph A86). The final dot point of paragraph A49 is also helpful in this sense.
9. *Additional procedures*: The revised requirement in paragraph 41(c) with respect to additional procedures reflects the survey of Board members discussed in Agenda Item 2. Paragraph 98 has been added to emphasize the need to perform additional procedures, rather than prematurely defaulting to a scope limitation in a limited assurance engagement when a matter comes to the practitioner’s attention.
10. *Written representations*: Changes were made to paragraphs 46–51 to make them more consistent with ISA 580.⁵
11. *Direct engagements*: Changes were made to the classification of the components of engagement risk in paragraph A11 to better reflect the difference between attestation engagements and direct engagements. Also, the definitions of inherent risk, control risk, and detection risk have been embedded in the text to improve its readability and meaningfulness.
12. *Materiality*: Paragraphs A79–A86 have been significantly revised to assist flow and clarity, and to offer further guidance on materiality, in particular with respect to the role of qualitative factors.
13. *Peculiar situations*: Paragraph A122 was added to provide guidance on the sorts of peculiar, but not necessarily unusual, situations that arise in broader assurance engagements.
14. *Scope limitations*: The Task Force thought it would be helpful to practitioners to add paragraphs A130–A132, which adapt similar guidance included in the ISAs and ISREs.
15. *Summary of procedure*: There has been concern expressed at IAASB meetings about the role of the summary of procedures in a limited assurance report. Paragraph A146 was added to assist practitioners in developing such summaries.

⁵ ISA 580, *Written Representations*

Matter for IAASB’s Consideration

- Q1.** Does the IAASB agree with the significant changes made to the draft since the September 2010 meeting?

Example Reports

16. It was suggested during the September meeting that the Task Force consider adding an example report(s) to assist to readers’ understanding of some of the concepts embedded in the ISAE.
17. While the Task Force agrees that examples assist in understanding, it is concerned that adding illustrative reports at this stage may tend to lock in certain reporting practices that are appropriate for the circumstances contemplated by the IAASB when drafting them, but which may not be generally appropriate for the many engagements in the very broad range of engagements covered by ISAE 3000.
18. The Task Force notes, however, that ISAE 3402⁶ and draft ISAE 3410⁷ both have example reports attached. The Task Force considers that these reports are likely to serve the same purpose as adding examples to ISAE 3000, particularly as their underlying subject matters cover both systems (ISAE 3402) and performance (ISAE 3410).

Matter for IAASB’s Consideration

- Q2.** Does the IAASB agree with omitting example reports from ISAE 3000?

Framework

19. At the June 2010 meeting, the IAASB agreed that ISAE 3000 should incorporate any concepts from the Assurance Framework that are necessary to understand and apply the ISAE. Having moved those concepts to ISAE 3000, there is little left for the Assurance Framework to cover. The IAASB therefore asked the Task Force to “*further explore whether the Framework could adequately deal, at a very high level, with all engagements for which the IAASB sets standards. The IAASB cautioned the Task Force to be mindful, in doing so, that (a) changes made to the Framework do not adversely affect other projects, in particular the project to revise ISRE 2400;⁸ and (b) revising the Framework is a by-product of the project to revise ISAE 3000 and excessive resources should not be devoted to the former.*”⁹
20. The Task Force has briefly considered a preliminary draft *International Framework for Engagements Performed by Professional Accountants in Public Practice* as drafted by staff. It is included as Agenda Item 6-D.

⁶ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

⁷ Draft proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

⁸ ISRE 2400, *Engagements to Review Financial Statements*

⁹ Minutes of the IAASB’s June 2010 meeting

21. The preliminary draft is presented at this meeting to obtain the IAASB’s initial reactions only. The Task Force does not intend discussing the specific wording of the preliminary draft, but rather whether its coverage and the level at which it is pitched appear appropriate. Issues the IAASB may like to consider in this context include:
- (a) Does having a Framework that covers (i) engagements governed by the standards of the IAASB, (ii) ethical principles and quality control standards, and (iii) engagements not governed by the standards of the IAASB, provide a helpful roadmap for the target audiences identified in paragraph 1 of the preliminary draft?
 - (b) Should the Framework cover agreed-upon procedures engagements and compilation engagements beyond financial information, albeit that extant ISRS 4400¹⁰ and ISRS 4410¹¹ are limited to financial information?
 - (c) Is the Framework the appropriate place to cover “association with information” (paragraph 26 in the preliminary draft is taken from the extant Assurance Framework)? Does more need to be said on this topic, either in the Framework or in a separate Standard?
 - (d) Should the Framework include a section on inherent limitations of (assurance) engagements akin to ISA 200 paragraphs A45–A52?

Matter for IAASB’s Consideration

Q3. What are the IAASB’s initial reactions to the preliminary draft *International Framework for Engagements Performed by Professional Accountants in Public Practice* at Agenda Item 6-D.

¹⁰ ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*

¹¹ ISRS 4410, *Engagements to Compile Financial Statements*