August 26, 2011

Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Dear Mr. Gunn:

Re: Exposure Draft - International Standard on Assurance Engagements (ISAE) 3000 (Revised) - Assurance Engagements Other Than Audits or Reviews of Historical Financial Information - April 2011

Thank you for providing us with the opportunity to comment on ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

Our Office, along with other legislative audit offices in Canada, are among the few in the world that base their performance audits (direct engagements) on generally accepted assurance standards. For this reason, we strongly support assurance standards that accommodate our circumstances.

While we appreciate that the IAASB has taken steps to address some of the unique attributes of direct engagements, the proposed standard still contains requirements and terminology that are well suited to attestation engagements, but not direct engagements. This is demonstrated by the use of terminology such as ‘misstatements’ in describing the objective of the assurance engagement, the requirement that the practitioner have suitable criteria available prior to the start of the engagement, and the implied assumption that the practitioner will prepare a short form report. As we detail in the following paragraphs, these requirements make it impracticable for Canadian legislative audit offices to apply the standards of ISAE 3000 to their direct engagements. This is unfortunate given that these engagements provide considerable value to our clients and the Canadian public at large and in Ontario, comprise a significant proportion of the assurance work we do.

We therefore urge the Board to address the following key issues to make the proposed standard more relevant to direct engagements:
Misstatements

In paragraph 6 of the proposed standard, the objective of an assurance engagement is described as obtaining assurance about “whether the subject matter information...is free from material misstatement”.

The term misstatement is defined in paragraph 8 as “a difference between the subject matter information and the proper measurement or evaluation...of the underlying subject matter against the applicable criteria”. This definition cannot be applied to direct engagements: unlike attestation engagements, the practitioner’s findings and conclusion(s) is the subject matter information. In direct engagements, the subject matter information is not prepared by management, nor is there a public assertion made by management; therefore, there can be no ‘misstatement’ by them. If there was a misstatement in the practitioner’s findings and conclusions, it would constitute an audit failure, but not a ‘misstatement’. The definition of misstatement itself implies that the practitioner’s objective is to provide assurance that his own work is free from material misstatement. In a performance audit the objective is typically to examine systems and processes for conformance to agreed-upon criteria for how those systems and procedures should be designed to accomplish management’s objectives. To conclude that these systems and procedures are free from material misstatement or that they are misstated in some way is a confusing concept to communicate. Rather, they either work as intended or they do not. If they do not, the auditor makes recommendations for how to improve them.

To rectify this, we propose that the objective of a direct engagement should be aligned with the terminology used in Canadian assurance standards, which state that the objective of a direct engagement is to obtain assurance that the underlying subject matter conforms, in all material respects, with the applicable criteria”.

Uncorrected Misstatements

Similarly, the concept of accumulating uncorrected misstatements is difficult to apply in the context of direct engagements. Unlike in many attestation engagements, where the practitioner compares the total value of misstatements against a quantitative threshold, in direct engagements the practitioner accumulates instances of non-compliance with criteria and assesses the impact of those deficiencies when forming a conclusion. The deficiencies may relate to business risks that are not financial in nature at all. Moreover, unlike in many attestation engagements, management is not usually given the opportunity to correct misstatements.

We propose that the guidance surrounding the nature of deficiencies be broadened beyond quantitative concepts such as “accumulating misstatements”. Instead, the guidance should direct the practitioner to evaluate the subject matter information against the criteria and accumulate evidence sufficient to conclude whether the criteria have been met and to accumulate instances where they have not been met in arriving at a conclusion on the objective of the engagement.
Proposed ISAE 3000 states that certain preconditions must be met for an assurance engagement to be undertaken by a practitioner. While we agree that certain preconditions are necessary and important, specific preconditions contained in paragraph 20 present obstacles to practitioners performing direct engagements in the public sector.

Specifically, part (b) of paragraph 20 requires the following five preconditions:

(i) The underlying subject matter is appropriate;
(ii) The criteria to be applied in the preparation of the subject matter information are suitable and will be available to the intended users;
(iii) The practitioner will have access to the evidence needed to support the practitioner's conclusion
(iv) The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and
(v) A rational purpose including, in the case of a limited assurance engagement, that a meaningful level of assurance can be obtained.

The guidance included in paragraph A33 states that it can be assumed that the last three conditions are present for all public sector engagements; it is the first two conditions that present a significant challenge. In a public sector direct engagement, the appropriateness of the subject matter and the suitability and availability of the criteria may be difficult to determine before the commencement of the audit. It is often the practitioner or elected officials that determine what will be examined, not the responsible party. Even once the broad subject area is established, the scope of the engagement often cannot be determined until the underlying subject matter has been surveyed (i.e. an appropriate level of understanding of the entity has been acquired) and appropriate boundaries around what will be examined can be determined. As a result, a significant amount of audit work is performed before the audit objective and related criteria are established and agreed upon. This is unlike attestation engagements, where a practitioner assesses the reasonableness of an assertion made by management and where the scope is generally well-defined and can be agreed upon before the engagement begins.

The issue of satisfying preconditions for an assurance engagement become even more critical in light of the emphasis that the proposed standard puts on these preconditions. Paragraph 21 states that if all the preconditions for an assurance engagement are not present "the practitioner shall not accept the engagement...unless required by laws or regulations to do so. However, an engagement conducted under such circumstances does not comply with ISAEs. Accordingly, the practitioner shall not include any reference within the assurance report to the engagement having been conducted in accordance with ISAE 3000 or any other ISAE". Therefore, practitioners performing direct engagements in the public sector are precluded from representing compliance with proposed ISAE 3000 simply because the exact terms of that work are not determined until the engagement has been properly scoped and planned. The "preconditions" can and ought to be met at the end of the scoping stage.

We propose that the standard be modified to allow practitioners in the public sector to perform assurance engagement in circumstances where not all of the preconditions are met.
but still allow them to represent compliance with ISAE 3000 when the standard can be met in all other respects.

Assurance Report Content

The format of the assurance report prescribed by the standard is not suitable for direct engagements, primarily because of the requirement in paragraph 59 that the practitioner's conclusion on the subject matter information should be "clearly separated from any emphasis of matter, findings, recommendations or similar information included in the assurance report". In a direct engagement, conclusion(s) are often not separated from any findings or recommendations, since the findings and recommendations support and further explain to the reader the basis for the conclusion(s). We therefore suggest that this paragraph be modified to recognize the relationship between findings, conclusions and recommendations in direct engagements.

Responses to Requests for Specific Comments

Our responses to the matters on which you specifically requested comments are set out below.

Question 1

Do respondents believe that the nature and extent of requirements in proposed ISAE 3000 would enable consistent high quality assurance engagements while being sufficiently flexible given the broad range of engagements to which proposed ISAE 3000 will apply?

No, we do not believe that ISAE 3000, as currently proposed, can be applied effectively to a broad range of engagements, in particular to direct engagements. Please see the overall response for our rationale.

Question 2

With respect to levels of assurance:

(a) Does proposed ISAE 3000 properly define, and explain the difference between, reasonable assurance engagements and limited assurance engagements?

Yes, the definitions and explanations are appropriate.

(b) Are the requirements and other material in proposed ISAE 3000 appropriate to both reasonable assurance engagements and limited assurance engagements?

Yes, the proposed standard is equally applicable to reasonable assurance and limited assurance engagements.

(c) Should the proposed ISAE 3000 require, for limited assurance, the practitioner to obtain an understanding of internal control over the preparation of the subject matter
information when relevant to the underlying subject matter and other engagement circumstances?

No, we believe it is inappropriate for practitioners to obtain an understanding of internal control over the preparation of the subject matter information in limited assurance engagements because by doing so, users may perceive that a higher level of assurance is being provided than is generally intended by a limited assurance engagement. Instituting this practice will further blur the line between “reasonable” and “limited” assurance and lead to unnecessary confusion.

**Question 3**

**With respect to attestation and direct engagements:**

(a) Do respondents agree with the proposed changes in terminology from —assurance-based engagements to attestation engagements as well as those from —direct-reporting engagements to direct engagements?

Yes, we support the change in terminology because it provides greater clarity in distinguishing between attestation engagement and direct engagements, both of which are assurance engagements.

(b) Does proposed ISAE 3000 properly define, and explain the difference between, direct engagements and attestation engagements?

Yes, both terms are appropriately defined and explained in proposed ISAE 3000.

(c) Are the objectives, requirements and other material in the proposed ISAE 3000 appropriate to both direct engagements and attestation engagements? In particular:

(i) In a direct engagement when the practitioner’s conclusion is the subject matter information, do respondents believe that the practitioner’s objective in paragraph 6(a) (that is, to obtain either reasonable assurance or limited assurance about whether the subject matter information is free of material misstatement) is appropriate in light of the definition of a misstatement (see paragraph 8(n))?

No, we do not believe the objectives and requirements of ISAE 3000 are appropriate in the context of direct engagements. Please see the overall response for our rationale.

(ii) In some direct engagements the practitioner may select or develop the applicable criteria. Do respondents believe the requirements and guidance in proposed ISAE 3000 appropriately address such circumstances?

In many instances, the terminology and requirements in proposed ISAE 3000 do not appropriately address circumstances where the practitioner selects or develops the applicable criteria. Please see the overall response for our rationale.

**Question 4**

**With respect to describing the practitioner’s procedures in the assurance report:**
(a) Is the requirement to include a summary of the work performed as the basis for the practitioner's conclusion appropriate?

Yes, the inclusion of a summary of the work performed will help educate users about the various levels of assurance available and the nature of the work done to provide suitable context for the conclusions reached in the practitioner's report.

(b) Is the requirement, in the case of limited assurance engagements, to state that the practitioner's procedures are more limited than for a reasonable assurance engagement and consequently they do not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement, appropriate?

Yes, the inclusion of this statement helps to educate users about the various levels of assurance available.

(c) Should further requirements or guidance be included regarding the level of detail needed for the summary of the practitioner's procedures in a limited assurance engagement?

No, the existing level of detail is adequate.

Question 5

Do respondents believe that the form of the practitioner's conclusion in a limited assurance engagement (that is, —based on the procedures performed, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated) communicates adequately the assurance obtained by the practitioner?

Yes, we believe that this wording conveys the intended level of assurance that a limited assurance engagement seeks to provide.

Question 6

With respect to those applying the standard:

(a) Do respondents agree with the approach taken in proposed ISAE 3000 regarding application of the standard by competent practitioners other than professional accountants in public practice?

Yes, we agree that the standard should be applicable to all competent practitioners

(b) Do respondents agree with proposed definition of —practitioner?

Paragraph 8(q) of the proposed standard defines a practitioner in a direct engagement as an individual that seeks to obtain assurance “about whether the outcome of that measurement or evaluation is free from material misstatement”. As we explained in our rationale, the term 'misstatement' is not appropriate in direct engagements as management has not made an assertion or prepared subject matter that might be misstated.
Comments on Other Matters

In response to the request for comments on the applicability of proposed ISAE 3000 to assurance engagements in the public sector, we include the following additional comments:

Conclusions in the Assurance Report

The wording used in paragraphs 59 and 60 to describe the assurance report implies a short form report that contains only one conclusion. In reality, direct engagements may have more than one objective and consequently more than one conclusion, and generally provide many pages of contextual and explanatory information assessing the subject matter information against the criteria. We propose that the wording of these paragraphs be amended to better reflect the reality of long-form reporting on direct engagements.

We attach here an example of a direct engagement report extracted from our 2010 Annual Report. This may help illustrate the nature of our work and the basis for the comments we have provided. Please note that reference to assurance standards is not included in the subject report itself but rather in the introduction to the chapter in our annual report containing all the direct engagement reports prepared that year. This introduction, titled “Reports on Value-for-money Audits” is attached. In addition, a separate chapter in our annual report describes our audit mandate, our independence as auditors and provides a detailed description of our audit process.

Risk of Fraud and Illegal Acts

The presence of fraud or other illegal acts should be considered by the practitioner when planning procedures to gather sufficient appropriate evidence to support the engagement conclusion. The proposed standard should include requirements about assessing the risk that the underlying subject matter or the subject matter information fails to meet a criteria as a result of fraud or illegal acts.

Thank you for the opportunity to comment.

Yours truly,

[Signature]

Gary Peall, CA
Deputy Auditor General


cc: CICA Auditing and Assurance Standards Board