

ISAE 3000—Issues and IAASB Task Force Proposals

The Split between ISAE 3000 and the Assurance Framework

1. The rationale for the split between the Assurance Framework and ISAE 3000 has been contentious since the project to create an assurance standard was initiated in the 1990s. At various times the two documents have been fully integrated into one, were Parts 1 and 2 of a single document, or were split entirely from each other as they are now.
2. The main reason they were split in their current iteration (approved in December 2003) was so the Assurance Framework's conceptual and background explanatory material (it contains no requirements) could be placed in the Handbook structure above all standards to which it applies i.e. the ISAs, and ISREs, as well as the ISAEs.
3. Particularly since ISA 200¹ was updated, as part of the Clarity project, to include substantially more conceptual material, and ISRE 2400² is now being revised, it is debatable whether the Assurance Framework still serves a useful purpose sitting above the ISAs and ISREs, which can be regarded as fully self contained sets of standards.
4. The case is slightly different for the ISAEs because ISAE 3000 and the Assurance Framework were written as a package and are closely linked, in particular:

- (a) The Assurance Framework includes some “pseudo” requirements necessary for ISAE 3000 to be complete. For example extant paragraph 17 of the Assurance Framework notes that “*A practitioner accepts an assurance engagement only where the practitioner's preliminary knowledge of the engagement circumstances indicates that ... (six critical points are listed, e.g., an expectation of access to sufficient appropriate evidence to support the practitioner's conclusion)...*” Extant ISAE 3000 then includes a reference to this paragraph in its application material (paragraph 8).

The Task Force has taken the view that any such “pseudo” requirements in the Assurance Framework should be incorporated into ISAE 3000. The IAASB appeared to be comfortable with this approach at its March 2010 meeting when it offered high-level comments on a working draft of ISAE 3000.

In some cases where “pseudo” requirements have been incorporated into ISAE 3000, the relevant text in the Assurance Framework, or part of it, may need to be retained in the Assurance Framework to ensure structural integrity if it is to remain a separate, stand alone document. This causes some duplication and redundancy.

- (b) The concepts underlying a number of critical distinctions made in extant ISAE 3000 are explained in the Assurance Framework, not ISAE 3000 itself. However, anecdotal

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

² ISRE 2400 “Engagements to Review Financial Statements.”

evidence suggests that the Assurance Framework is largely bypassed by practitioners who, when faced with an assurance engagement other than an audit or review of historical financial information, focus on the content of ISAE 3000. This is, presumably, because ISAE 3000 is a standard that contains actionable material, but the Assurance Framework is not.

Symptomatic of this is what appears to be a poor understanding amongst practitioners of some of the key concepts explained in the Assurance Framework. An example of this is the distinction between a direct engagement (called a direct reporting engagement in extant ISAE 3000) and an attestation engagement (called an assertion based engagement in extant ISAE 3000), where even the IAASB has had some misunderstandings during its debates. That is not to say that the explanations that have been in the Assurance Framework, if read, would have led to perfect understanding – those explanations can certainly be improved.

If improved explanations were to remain in the Assurance Framework alone, however, the Task Force is concerned that they would not improve practitioners' understanding as practitioners are likely to continue to bypass the Assurance Framework.

5. Options for dealing with the split between the Assurance Framework and ISAE 3000 that the Task Force has identified to date include:
 - (a) Retaining the Assurance Framework largely as it is, but with clarified wording;
 - (b) Retaining a drastically slimmed down version of the Assurance Framework as a standalone document, which may no longer be called a "Framework;"
 - (c) Incorporating the Assurance Framework into ISAE 3000 as a preface, introduction, or Part 1 that contains no requirements; or
 - (d) Fully integrating the Assurance Framework with ISAE 3000.
6. The version presented at this meeting follows option (b) above, i.e. it is drastically slimmed down. This version has been presented so the IAASB can focus on those elements that may not fit so readily into ISAE 3000. The text that remains in this version contains only the following elements of any substance:
 - (a) Paragraph 8, which contains examples to illustrate how components of the definition relate to each other. ISAE 3000 also contains similar examples, but in keeping with a preference expressed by the IAASB at its March 2010 meeting, ISAE 3000 does not contain examples that relate to financial statements.
 - (b) Paragraphs 12-16, which distinguish assurance engagements from other engagements conducted by professional accountants.
 - (c) Paragraph 18, which suggests alternative services when an assurance engagement cannot be undertaken.
 - (d) Paragraph 31 and the new Appendix 2, which offer a classification and examples of the types of underlying subject matter and subject matter information that may be involved in an assurance engagement (including financial statement audits and reviews).

- (e) A new section on inherent limitations of an assurance engagement, adapted from ISA 200.
 - (f) Paragraph 61, which deals with inappropriate use of a practitioner's name.
7. A further option, which the Task Force has only recently started to contemplate but which has some initial appeal, is to migrate the Framework from being a document that deals with only assurance, to one that deals, at a very high level, with the range of engagements for which the IAASB sets standards. The initial vision for the purpose of such a document would be to distinguish those engagements that are subject to IAASB standards from other engagements conducted by professional accountants. This is already partially achieved by the extant Assurance Framework which, as noted in (b) of the previous paragraph, distinguishes assurance engagements from other engagements. Migrating the Framework would likely mean expanding this to include a description of the other types of engagement covered by IAASB pronouncements, i.e. related services – compilations and agreed-upon procedures.

Matter for IAASB's Consideration

- Q1. Does the IAASB favor one of the four options identified in paragraph 5, the additional option identified in paragraph 7, or a different option?

The Split between ISAE 3000 and the ISAs, particularly ISAs 800³ and 805⁴

- 8. Feedback from practitioners has indicated that a significant issue for them is the current ambiguity about whether some engagements should be performed under the ISAs, particularly ISAs 800 and 805, or ISAE 3000. This issue occurs in both the public and the private sectors.
- 9. Extant ISAE 3000 applies to “assurance engagements other than audits or reviews of historical financial information covered by International Standards on Auditing (ISAs) or International Standards on Review Engagements (ISREs).” As discussed previously with the IAASB, it is not entirely clear from this wording whether the IAASB intends ALL assurance engagements on historical financial information to be conducted under the ISAs or ISREs, or whether there are some assurance engagements on historical financial information that are not “audits or reviews ... covered by” the ISAs or ISREs.
- 10. In attempting to clarify the situation revised ISA 200:
 - (a) Includes the following definition of historical financial information: “Information expressed in financial terms in relation to a particular entity, derived primarily from

³ ISA 800, “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.”

⁴ ISA 805, “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past;”⁵ and

- (b) States that “ISAs are written in the context of an audit of financial statements by an auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information” (this is reiterated in ISA 805).⁶
11. While this has helped, questions still remain, e.g., what does “derived primarily from that entity’s accounting system” mean; and what if information is a composite of information from a number of entities? Also, are there reasonable assurance engagements with respect to historical financial information other than “audits” as contemplated by the ISAs?
 12. One of the main issues that has arisen in practice is what standard(s) apply when the subject matter information of an engagement comprises a mixture of historical financial information and other information (for example, cost per unit of production) – should ISAE 3000 apply, should ISA 805 apply, should they both apply in some way, or should the engagement be split in two with separate reports under ISA 805 and ISAE 3000.
 13. The draft of ISAE 3000 presented at this meeting includes an approach that follows the logic outlined below (where HFI means historical financial information). The relevant paragraphs in ISAE 3000 are 2, 8-9-11, and A13- A15. Essentially the approach being advocated is to use ISAE 3000 where there is any doubt about which standards to apply, but ensure that where historical financial information is included as a significant part of the engagement, the evidence-gathering procedures⁷ of the ISAs are applied to that information.

	Information that is not HFI (may also include some HFI if it is merely incidental)	Hybrid (includes both HFI and other information, neither of which is merely incidental)	HFI (may also include some other information if it is merely incidental)	
			Engagement is an “audit” or “review”	Engagement is not an “audit” or a “review” (e.g., a direct reporting engagement)
ISAEs	Applicable	Applicable	Not applicable	Applicable
ISAs/ISREs	May provide some guidance in relation to the assurance process generally	Applicable to evidence-gathering procedures on the HFI component	Applicable	Apply to evidence-gathering procedures

⁵ ISA 200, paragraph 13(g).

⁶ ISA 200 paragraph 2, and ISA 805 paragraph A3.

⁷ The term “evidence-gathering procedures” is used in extant ISAE 3000. It is acknowledged that some further clarification may be needed in ISAE 3000 about whether this includes all procedures performed on an engagement, or whether it excludes, for example, reporting procedures, which was the intent of the Task Force when it used the term in this context.

Matter for IAASB's Consideration

Q2. Does the IAASB agree with the approach outlined in the table above?

Assurers Who are not Professional Accountants

14. An issue that has become quite contentious in the project to develop an ISAE on “Assurance on a GHG statement” but which has broad application to all assurance engagements, is whether IAASB standards, in particular ISAEs, are available to be applied by assurers who are not professional accountants.
15. The definition of “professional accountant” is itself problematic and IFAC is in the process of setting up a Task Force to look at this issue as it affects a number of IFAC Boards and Committees. The definition used in the IAASB literature, to be consistent with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, is “An individual who is a member of an IFAC member body.”
16. The rationale behind this definition is that it includes only those over whom IFAC can directly exercise influence through its membership structure, in particular through its Statements of Membership Obligation and Compliance Program, and about whom it can therefore hold reasonable expectations concerning their level of education and training, ethical requirements, technical standards, quality control policies and procedures, investigation and disciplinary processes etc. It can be argued that it is in the public interest for IFAC standards to be used only by such people; that is not to say that others may not be able to do a job of equal quality, but rather that intended users may have no way of telling whether that is the case or not and that if IFAC allows use by those who are not well qualified it will dilute the value of the standards themselves.
17. A counterargument has been made along the lines: (a) that if IFAC believes its standards are more rigorous than other standards in the market place, then making them available to all assurers to aspire to will actually raise the level of performance across the board in time; and (b) that restricting the use of IFAC standards is contrary to the public interest as it is an unreasonable restraint of trade. In fact, it may be the case that IFAC has few mechanisms available to it to prevent use of its standards, should it choose to do so, and there is evidence that a number of non-member assurers do cite IFAC standards (in particular ISAE 3000) in their reports.
18. Further issues with the current definition are that it is aimed at individuals and is thereby silent on its application to firms; and that it excludes people such as the following, whom some might expect to have been included:
 - (a) People trained, and perhaps registered, as accountants who are not members of an IFAC member body, for example, (the apparently large number of) registered CPAs in the USA who are not members of the AICPA.
 - (b) People who work for an accounting firm who are not members.
 - (c) People who work for public sector auditors who are not members.

19. The IAASB's 2009 Consultation Paper "Assurance on a GHG Statement" explored this issue in an indirect way. Because of the way the question in the Consultation Paper was phrased (it asked about precluding "any competent group who accepts the authority of the IAASB to set standards that apply to that group") it is difficult to classify all responses in a meaningful way for the purpose of this discussion. However, what is clear from the responses is that accounting bodies and firm who responded acknowledge the value of the measures mentioned in paragraph 16 above, in particular, compliance with ISQC 1 and the IESBA Code. Many also acknowledge that, as the ACCA put it: "while the IAASB has no mandate to issue standards for those who are not professional accountants in public practice, neither should it seek to restrict the use of its standards by competent assurance practitioners that accept their authority." On the other hand, the response from a large asset manager (Hermes) noted that "while we accept that the standard acknowledges the need to involve external experts, it does so in the context of an auditor-led team. We consider this to be unnecessarily restrictive as well as potentially costly."
20. The challenge for the IAASB is, it seems, to find a way of including in ISAE 3000 all those who, in the public interest, should be able to use ISAE 3000, but somehow excluding, or at least identifying, those who, in the public interest, should not have its use available to them.
21. The solution to this dilemma that the Task Force is proposing for the IAASB's consideration is along the following lines. Essentially, the draft acknowledges the fact that it is written for professional accountants (paragraph A20), but does not attempt to limit its application to professional accountants and their public sector equivalents, as does extant ISAE 3000.⁸ Rather, the draft requires that anyone who uses ISAE 3000 should, in addition to having an appropriate knowledge of the underlying subject matter (paragraph 15(c)):
 - (a) Be a member of a firm that applies: (paragraphs 15(a) and 51(i))
 - ISQC1;⁹ or
 - other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as ISQC 1, in which case the assurance report should cite those requirements, and state that, in the practitioner's professional judgment, those requirements are at least as demanding as the ISQC 1; and
 - (b) Have specialist knowledge and experience in assurance skills and techniques developed through extensive training and practical application (paragraphs 15(b)). So the use of ISAE 3000 will not be open to all "professional accountants" since not all professional accountants have the requisite knowledge and experience in assurance skills and techniques; and
 - (c) Comply with: (paragraphs 16 and 51(j))

⁸ For example, Paragraph 1 of extant ISAE 3000 states "The purpose of this International Standard on Assurance Engagements (ISAE) is to establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice ..."

⁹ International Standard on Quality Control (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements."

- Parts A and B of the IESBA Code;¹⁰ or
 - other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as Parts A and B of the IESBA Code, in which case the assurance report should cite those requirements, and state that, in the practitioner's professional judgment, those requirements are at least as demanding as Parts A and B of the IESBA Code.
22. The Task Force acknowledges the difficulty of enforcing requirements predicated on an assurer's assessment of the stringency of other requirements in comparison to ISQC 1 or the IESBA Code, but believes requiring such assurers to make an explicit statement about this, based on the guidance in paragraphs A21 and A24-A28), to be an adequate safeguard to protect the public interest.

Matter for IAASB's Consideration

Q3. Does the IAASB agree with the approach outlined above at paragraph 21?

Direct Engagements and Attestation Engagements

23. As noted earlier in this paper, the distinction between a direct engagement (called in extant ISAE 3000 a direct reporting engagement) and an attestation engagement (called in extant ISAE 3000 an assertion based engagement) has been poorly understood.
24. Critical to understanding this distinction is understanding the relative roles of the various parties to an assurance engagement. The Task Force has developed a chart at to help explain this, which it is suggesting be included at as an appendix to ISAE 3000 (see Appendix 2 of Agenda Item 6-C). The Task Force is also suggesting a change in terminology to refer to the "responsible party," which is used in extant ISAE 3000 in two different ways; the current suggestion is that responsible party be changed to:
- "managing party," when referring to the party responsible for the underlying subject matter; or
 - "measurer or evaluator," when referring to the party responsible for the subject matter information.
25. The definitions of attestation and direct engagement included in the draft are:
- Attestation engagement – An assurance engagement in which a party(ies) other than the practitioner measures the underlying subject matter against the criteria and presents the resulting subject matter information in a report or statement.

¹⁰ The *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants.

- Direct engagement – An assurance engagement in which the practitioner evaluates or measures the underlying subject matter against the criteria and presents the resulting subject matter information as part of, or accompanying, the assurance report.

It should be noted that since both attestation and direct engagements are *assurance* engagements, the practitioner must obtain sufficient appropriate evidence about the subject matter information in both cases.

26. Revised explanations of these two types of engagement, adapted and expanded from that in the Assurance Framework, are also included in the application material at paragraphs A3-A6, and important guidance on safeguarding objectivity is included at paragraph A55.

Matters for IAASB's Consideration

Q4. Does the IAASB agree with the definitions and explanations of attestation and direct engagements?

Q5. Does the IAASB agree with inclusion of the chart at Appendix 2 to the ISAE?

Other matters

27. The Task Force looks forward to the IAASB's detailed scrutiny of the draft ISAE and asks the IAASB to provide specific feedback on the following additional questions as it works through the document at the meeting:

- Feedback was sought through the GHG Consultation Paper about whether the requirements and guidance relating to practitioner's experts were appropriately integrated into the draft GHG working draft. That feedback is relevant to assurance engagements generally and therefore to ISAE 3000 since many assurance engagements under ISAE 3000 will be conducted by multidisciplinary teams, and the approach adopted in the GHG draft was similar to that in the current draft of ISAE 3000. Comments received were generally supportive of that approach, although a question still remains on which the Task Force is yet to deliberate: how should an expert be defined to cater for application of ISAE 3000 by assurers who are not professional accountants (the current definition at Appendix 1 paragraph (m) refers to expertise in a field "other than accounting or assurance").

Matter for IAASB's Consideration

Q6. Are the requirements and guidance relating to practitioner's experts appropriately integrated into the document?

- The GHG Consultation Paper asked in relation to the objectivity of a practitioner's expert whether an expert should be required to be independent. Of the 22 respondents

who addressed this question, 18¹¹ thought that objectivity, rather than independence, in the sense used in the IESBA Code, is the appropriate benchmark for external experts. Of the four respondents¹² who thought independence should be required, one (AUASB) offered a particular reason: “As the work of the external expert may in many cases be significant in the context of the GHG assurance engagement, particularly while this field of assurance is still developing, it may be beneficial to provide more specific requirements as to when independence must be met by the expert.” The Task Force is of the view that it would be inappropriate to require external experts to be independent for the same reasons stated in the Basis of Conclusions for ISA 620 in relation to a financial statement audit.¹³

Matter for IAASB’s Consideration

Q7. Is the requirement to evaluate the objectivity of a practitioner’s expert appropriate?

- As discussed at the March meeting, feedback from the GHG Consultation Paper indicated that the requirements were pitched at about the correct level, and while most members were generally comfortable with the number and nature of requirements, the Task Force was asked to consider whether reductions could be made, perhaps by further summarizing some lengthy requirements or moving some requirements into the application material. The Task Force has reviewed all the requirements and culled/summarized where it considered it appropriate to do so, e.g., in the sections on obtaining evidence, experts, and quality control. The Task Force also considered consistency with interim drafts from both the Reviews and Compilation Task Force and the GHG Task Force, and will do so again as these drafts are further refined at this meeting.

Matter for IAASB’s Consideration

Q8. Is the number and nature of requirements appropriate?

- The working draft of ISAE 3000 presented at the March IAASB meeting included about 30 definitions, which was generally considered to be too many. About half of the

¹¹ AICPA, Deloitte, ICAS, IRBA, ACCA, AASB, FEE, PwC, BDO, PSB, IdW, RAAP, KPMG, GTI, Talal, ICAEW, JICPA, and CIPFA.

¹² AUASB, ICAP, CGA, and IMCP.

¹³ “... it would be impractical to expect auditor’s external experts to be subject to all the quality control policies and procedures the firm applies with respect to its partners and staff. Similarly, the IAASB believes it would be impractical to expect auditor’s external experts to be subject to all the independence requirements of the ... Code, which is written for application to accountants and accounting firms. If auditor’s external experts were included in the definition, the IAASB considers that this would create a significant barrier to the necessary use of experts in appropriate cases.”

definitions included in that draft were adapted from the ISA Glossary, with the other half being indigenous to ISAE 3000. The Task Force is aware that other non-audit Task Forces are also considering how best to deal with definitions, for example:

- Which definitions from the ISAs should be adapted? For example, a document may use a term only once or twice, in which case it may make more sense to explain its meaning in the application material where it is used, rather than define it.
- How should definitions be adapted? For example, should a subject matter-specific ISAE adapt definitions in terms of its own subject matter, or generically, e.g., should a misstatement in the GHG draft be defined in terms of a misstatement of the “GHG statement” or in terms of “the subject matter information,” and should a definition in the review draft refer to reviews or limited assurance?
- Where should definitions be housed? The approach taken in draft ISAE 3000 (somewhat experimentally) is to put the indigenous definitions at the front of the draft in the usual place, and put the definition imported from the ISAs in an appended glossary (Appendix 1). Other alternatives include: developing a Glossary for each document series in the Handbook (i.e., ISAs, ISREs, ISEA and ISRSs); developing a Glossary for each volume of the Handbook (i.e., ISAs, and others); or retaining the current Glossary with definitions adapted to accommodate all IAASB standards. An issue that needs to be considered here is the authority of definitions, for example, if a definition is adapted but has not been through the due process, what is its authority?

Matter for IAASB’s Consideration

Q9. Does the IAASB have a strong preference for how definitions should be handled in the IAASB Handbooks? As this is largely a structural issue rather than a technical issue? Should IAASB staff be asked to consider it in detail and make a recommendation to the IAASB?