

Limited Assurance Survey—Issues and Proposals

Limited Assurance Survey

1. The wording determined by the survey and used in the drafts of ISAE 2400,¹ ISAE 3000² and ISAE 3410³ presented to this meeting is:

If the practitioner becomes aware of a matter that causes the practitioner to believe the subject matter information may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

- (i) Conclude that the matter is not likely to cause the subject matter information to be materially misstated; or
 - (ii) Determine that the matter causes the subject matter information to be materially misstated.
2. For each of the two elements included in the survey (i.e., the trigger for additional procedures and the extent of additional procedures) an analysis of the survey results is presented below.

The First Element: The Trigger for Additional Procedures

3. The numerical results were as follows. This is the average of individual members' rankings given to each option from 1 (most favored) to 7 (least favored). Therefore, the lowest average ranking is the most favored option.

	<i>Options</i>	<i>Average ranking</i>
A	If the practitioner becomes aware of a matter that indicates <u>a material modification should be made to the subject matter information</u> ...	4.5
B	If the practitioner becomes aware of a matter that indicates <u>the subject matter information is materially misstated</u> ...	3.9
C	If the practitioner becomes aware of a matter that indicates <u>the subject matter information may be materially misstated</u> ...	2.9
D	If the practitioner becomes aware of a matter that indicates <u>the subject matter information is likely to be materially misstated</u> ...	3.7

¹ International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*

² International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

³ Draft proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

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IAASB Main Agenda (December 2010)

	<i>Options</i>	<i>Average ranking</i>
	<i>(Note: For this option, which is worded the same as the following one, assume that the word “likely” will be defined/described as meaning greater than 50%, i.e., “more likely than not.”)</i>	
E	... <u>likely</u> ... <i>(Note: For this option, which is worded the same as the previous one, assume that the word “likely” will have a more judgmental, plain language meaning.)</i>	3.4
F	If the practitioner becomes aware of a matter that indicates <u>the subject matter information contains a misstatement that is clearly other than trivial</u> ...	5.1
G	If the practitioner becomes aware of a matter that indicates <u>the practitioner cannot express an unmodified conclusion</u> ...	4.4

4. The most favored option for the first element was Option C “If the practitioner becomes aware of a matter that indicates the subject matter information may be materially misstated ...”.
5. Six members, i.e. nearly half of the fourteen who completed the survey, ranked Option C as their number one preference. Two members ranked it as their least or second least favored. The other six members ranked it in the middle.
6. Three members offered alternative options, but they were not substantially different from the options presented in the survey other than in some cases offering rewording of an option to reflect some of the qualitative comments mentioned below.
7. A number of members who did not rank Option C as their most preferred option noted that they thought the use of “may” would set too low a bar to prompt additional procedures, which they thought would result in an excessive amount of work needing to be done for a limited assurance engagement. One member stated that they found this option unacceptable for that reason, noting that in their view using “may” means that the awareness of even a bare possibility of a material misstatement would trigger additional procedures, which they thought to be a more severe threshold than “acceptably low level of risk” as used for reasonable assurance engagements.
8. On the other hand, a number of members offered qualitative comments in support of Option C, including one who said “I believe that the threshold for triggering additional work needs to be low—if the practitioner believes there “may be” a “material” misstatement, I don’t think it can be ignored.” It is also noted that use of the word “may” in this context is consistent with the US standard on reviews, which says “If the accountant believes the financial statements may be materially misstated, the accountant should perform additional procedures ...”. This wording does not seem to have caused any particular difficulties in the US environment.

9. The survey noted some alternative wording for certain phrases used in all the options:
- (a) One members noted a preference for replacing “If the practitioner becomes aware of a matter...” with “If results of the procedures performed by the practitioner ...” while another member noted such a replacement would be unacceptable in their view because “the practitioner would then be able to ignore information of which the practitioner has become aware that did not result from the procedures performed.” The ISAE 3000 Task Force agreed with this later view, as did the majority of the ISRE 2400 Task Force.
 - (b) One member noted they did not like the use of the word “indicates,” one member preferred the use of “leads the practitioner to question whether” and two others noted their preference for using the word “belief.” In discussing this, the ISRE 2400 Task Force and ISAE 3000 Task Force concluded that “causes (or leads) the practitioner to believe” was better than “indicates” as it gives appropriate emphasis to the practitioner’s judgment.

The Second Element: Extent of Additional Procedures

10. The numerical results were as follows. This is the average of individual members’ rankings given to each option from 1 (most favored) to 4 (least favored). Therefore, the lowest average ranking is the most favored option.

	<i>Options</i>	<i>Average ranking</i>
A	... the practitioner shall pursue the matter by performing additional procedures sufficient to enable the practitioner <u>to report</u> .	2.9
B	... the practitioner shall pursue the matter by performing additional procedures sufficient to enable the practitioner <u>to (or until the practitioner is able to):</u> (a) <u>Obtain the desired (or planned) level of assurance that the affected item(s) do not cause the subject matter information to be materially misstated;</u> (b) <u>Determine that the affected item(s) cause the subject matter information to be materially misstated; or</u> (c) <u>Determine that the practitioner is unable to do either (a) or (b) above and that therefore a scope limitation exists.</u>	2.4
C	... the practitioner shall pursue the matter by performing additional procedures sufficient to enable the practitioner <u>to (or until the practitioner is able to):</u> (a) <u>Conclude that the affected item(s) are not likely to cause the subject matter information to be materially misstated; ...</u>	2.5

	<i>Options</i>	<i>Average ranking</i>
	<p><u>[(b) and (c) as above]</u></p> <p><i>(Note: For this option, which is worded the same as the following one, assume that the word “likely” will be defined/described as meaning greater than 50%, i.e., “more likely than not.”)</i></p>	
D	<p>... the practitioner shall pursue the matter by performing additional procedures sufficient to enable the practitioner to <u>(or until the practitioner is able to):</u></p> <p><u>(a) Conclude that the affected item(s) are not likely to cause the subject matter information to be materially misstated; ...</u></p> <p><u>[(b) and (c) as above]</u></p> <p><i><u>(Note: For this option, which is worded the same as the previous one, assume that the word “likely” will have a more judgmental, plain language meaning.)</u></i></p>	2.3

11. The most favored option for the second element is Option D, which uses the term “not likely” with a judgmental, plain language meaning.
12. Five of the fourteen members who completed the survey ranked Option D as their number one preference. One member ranked it as their least favored. The other eight members ranked it in the middle. It is worth noting that while the average ranking for all four options is reasonably close (relative to the first element where there was a clear “winner”) Option D had the most 1st rankings and the fewest last rankings of the four options.
13. One member offered an alternative options using the (a), (b), (c) structure as above, but changed (a) to read “Conclude that nothing has come to the practitioner’s attention that leads him/her to believe that subject matter information [as a whole] is materially misstated.”
14. Qualitative comments offered by members in their responses essentially reflected the Board’s previous discussions of the term likely; they included the following:
 - (a) One member thought that if “likely” is used in the second element it should be used in the first element also to be consistent. The members of the ISRE 2400 and ISAE 3000 Task Forces did not agree that this is the case, and in fact saw some merit in having different triggers as the decisions are not identical.
 - (b) One member noted that “likely” may cause translation difficulties. Others noted, however, that “likely” is already used in the ISAs. It does not appear to cause translation difficulties there.
 - (c) One member noted Option D to be unacceptable in their view because it lacks precision relative to the statistical use of the term likely. Seven others, however, whether they put

the Option D first or not, noted they did not want any statistical connotations attached to the word likely, arguing, for example, that it is not “possible for the practitioner to be able to judge the likelihood with the precision implied if using numerical constructs.” The option with a statistical meaning for the word likely (Option C) was the favored option of only 2 members – all other options had more members choosing it as their most favored option.

15. The survey noted some alternative wording for certain phrases used in all the options:
 - (a) One alternative was to replace “pursue the matter by performing” in the lead-in clause with “design and perform.” This alternative was explicitly supported by one member and the ISAE 2400 Task Force in particular believed it to be a better formulation. “Design and perform” has been used in the final wording used for consideration at this meeting.
 - (b) The wording in sub-paragraph (b) of options B, C and D uses the word “determine.” An alternative noted in the survey was to replace this with “obtain reasonable assurance.” Two members noted their support for this alternative and one noted they did not support it. Discussion at the ISRE 2400 and ISAE 3000 Task Forces indicated that there may be some confusion if the term “reasonable assurance” is used in the requirement. It has been used, however, in the application material to this paragraph for ISAE 3000 and ISAE 3410, but not in ISRE 2400 because ISRE 2400 already uses the term “reasonable assurance” in connection with the objective of quality control policies and procedures so it was thought that an additional mention in this context should be avoided.
16. Options B, C and D each have a sub-paragraph (c) which states that a scope limitation exists if the practitioner cannot do either (a) or (b). In discussing the final wording to be used for consideration at this meeting, the ISAE 3000 Task Force in particular was of the view that (c) is unnecessary. There are several circumstances that can lead to a scope limitation, but the requirements do not, in each case, point this out explicitly. It was considered similarly unnecessary to do so here as part of the requirement. Reference to the fact that failure to be able to do either (a) or (b) will result in a scope limitation has, however, been included in the application material to this paragraph.

Matter for IAASB Consideration

1. Does the IAASB agree to use the following paragraph as a requirement in each of ISAE 2400, ISAE 3000 and ISAE 3410?

“If the practitioner becomes aware of a matter that causes the practitioner to believe the subject matter information (financial statements as a whole/GHG statement) may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

- (i) Conclude that the matter is not likely to cause the subject matter information (financial statements as a whole/GHG statement) to be materially misstated; or
- (ii) Determine that the matter causes the subject matter information (financial statements as a whole/GHG statement) to be materially misstated.”

Other Issues

17. The following list briefly states the position taken in the drafts of ISAE 2400, ISAE 3000 and ISAE 3410 on a number of issues that can affect all three documents. These positions are understood to be supported by the majority of IAASB members. Where there are contrary views however, it is hoped that a brief discussion under this agenda item will help isolate specific issues of concern and, if a consensus can be achieved as part of this agenda item on how to approach these items, it will help expedite discussion of ISAE 2400, ISAE 3000 and ISAE 3410 later in the meeting. For example, it may be that one or two members disagree with some of the positions below but are willing to support discussion of the issue in Explanatory Memoranda accompanying exposure drafts as the most effective way to resolve the issue.
- (a) Consistent with extant ISAE 3000 and the extant Assurance Framework,⁴ the draft of ISAE 3000 at Agenda Item 6 includes reference to engagement risk in the definition of a limited assurance engagement. In some cases, engagement risk will be reduced primarily by performing procedures that are outlined in a subject matter-specific standard (as in ISRE 2400). In other cases an identification and assessment of risks will be appropriate (as in ISAE 3410). In all cases, some consideration of risk is warranted (as in ISAE 3000).
 - (b) The level of assurance obtained is the converse of the reduction in engagement risk, and both of these are an expression of the strength (the combination of sufficiency and appropriateness) of the evidence obtained. Hence: (i) assurance, (ii) risk, and (iii) evidence are just different perspectives of the same issue.
 - (c) Not all limited assurance engagements provide the same level of assurance.
 - (d) The level of assurance obtained in a limited assurance engagement can rarely, if ever, be quantified.
 - (e) For all limited assurance engagements the practitioner should obtain a level of assurance that is meaningful to intended users. The bottom rung of what is meaningful to intended users cannot be articulated with any clarity across the broad range of possible engagement circumstances.
 - (f) Not all limited assurance engagements involve the same type of procedures (for example, primarily inquiries and analytical procedures).
 - (g) The procedures to be performed for all limited assurance engagements for a particular type of subject matter are not necessarily, broadly the same. For some subject matter-specific standards (like ISRE 2400) it will be appropriate to stipulate procedures to a greater extent than in other subject matter-specific standards (such as ISAE 3410). The maturity of the service will be one determinant of this – the less mature a service is, the

⁴ *International Framework for Assurance Engagements*

more likely it is that trying to drive consistency by stipulating procedures will prematurely curtail innovation.

- (h) A limited assurance engagement may have procedures stipulated in the terms of reference, by law, in a subject matter-specific ISAE, etc. This does not make it an agreed-upon procedures engagement. The procedures stipulated for an agreed-upon procedures engagement require limited judgment to perform, and in an agreed-upon procedures engagement the practitioner is not required to perform additional procedures if something comes to their attention.
- (i) Although some subject matter-specific standards may be able to “peg” the level of assurance or the procedures appropriate to that subject matter, at a generic level that is not the case so it is necessary to define limited assurance engagements by relating them to reasonable assurance engagements (for example, by saying the level of assurance obtained is lower, or the level of engagement risk is higher).
- (j) The practitioner’s conclusion in a limited assurance engagement should be expressed in the negative form.
- (k) The summary of procedures in the practitioner’s report for a limited assurance engagement will ordinarily need to be more detailed than for a reasonable assurance engagement. As extant ISAE 3000 notes “in a limited assurance engagement an appreciation of the nature, timing, and extent of evidence-gathering procedures performed is essential to understanding the assurance conveyed by a conclusion expressed in the negative form.”

Matter for IAASB Consideration

2. Does the IAASB agree with the above positions?