

Meeting: IAASB
Meeting Location: Edinburgh
Meeting Date: June 11–15, 2012

Agenda Item 4

Exposure Draft ISAE 3000 – Initial Discussion of Select Issues

Objective of Agenda Item

1. To obtain IAASB's input on certain key directional issues arising from comments received on Exposure Draft ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ED-3000), in advance of a full discussion in September 2012.

Task Force

2. The Task Force comprises the following:
 - William Kinney (Task Force Chair, IAASB Member)
 - Jean Blascos (IAASB Member)
 - Roger Simnett (Co-Chair, ISAE 3410 Task Force)
 - Andrew Baigent (External member nominated by INTOSAI¹)
 - Wolfgang Boehm (IAASB Technical Advisor)

Activities Since Last IAASB Discussion

3. The IAASB released ED-3000 in April 2011 for comment by September 2011.
4. The Task Force met via teleconference in December 2011 and January 2012 primarily to determine if any issues arose from the ED-3000 comment letters that would affect the deliberations on the ISAE 3410² and ISRE 2400³ projects. A series of teleconferences with the Chairs of the three Taskforces to discuss these issues were held leading up to the December 2011 and March 2012 IAASB meetings.
5. The Task Force met again via teleconference in May 2012 to discuss comments received in certain key areas. These areas are principally relevant to the overall direction of the project and, therefore, early input from the IAASB thereon is important. The Task Force will further study comments on all areas of ED-3000 for purposes of discussion at the September 2012 IAASB meeting.

¹ International Organization of Supreme Audit Institutions

² ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

³ Proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

Structure of this Paper

6. This Paper is structured as follows:
 - **Section I – Background:** A brief summary of the development and key proposals of ED-3000 and an overview of areas of comment by respondents to ED-3000, as relevant to the issues that the IAASB is asked to discuss at this meeting.
 - **Section II – Issues for Consideration:** Certain key directional issues arising from comments received on ED-3000 for discussion with the IAASB.

Section I – Background

Project Proposal

7. Extant ISAE 3000 was approved by the IAASB in December 2003. At the time of its release, the IAASB acknowledged that assurance services are an evolving field and, accordingly, decided that ISAE 3000 should be kept under review.
8. To inform the IAASB's approval of a project proposal, a survey was sent to national standard setters (NSS) and IFAC member bodies in certain countries⁴ to ensure that the project was correctly scoped. The survey results indicated that while clarification of some issues would be of benefit, overall extant ISAE 3000 is being applied in practice around the world without serious difficulty.
9. The project proposal to revise ISAE 3000 was approved by the IAASB in March 2009. The main objectives of the revision were: (i) to incorporate enhanced requirements and guidance in the light of experiences with extant ISAE 3000 and the extensive and growing use of ISAE 3000 by professional accountants and NSS around the world, and (ii) to adopt the clarity drafting conventions. The Task Force was also asked to determine if separate "topic-specific" ISAEs might be needed to deal with, for example, planning, using the work of experts, and documentation.
10. The project proposal noted that conforming amendments may be needed to the International Framework for Assurance Engagements (Framework) (although it should not entail revisiting conceptual matters settled at the time that Framework was issued) and the subject matter-specific ISAEs (for example, ISAE 3402⁵). However, the IAASB acknowledged some clarification of conceptual matters may be necessary when a particular need to do so has been identified through experience with ISAE 3000.

Highlights of ED-3000

Level of Requirements

11. In developing ED-3000, the Task Force reviewed all requirements in the clarified ISAs to determine whether an equivalent requirement, adapted as appropriate, or additional application material should be reflected in the proposed revised ISAE. In response, the IAASB resolved that requirements should be included to cover all significant areas of assurance engagements within the

⁴ Australia, Brazil, Canada, China, France, Germany, India, Japan, the Netherlands, New Zealand, South Africa, the United Kingdom, and the United States.

⁵ ISAE 3402, Assurance Reports on Controls at a Service Organization

scope of ISAE 3000 (i.e., assurance engagements other than audits or reviews of historical financial information) – noting that this would avoid the need for them to be duplicated in subject matter-specific ISAEs. The IAASB also determined that separate topic-specific ISAEs (for example, ISAEs addressing documentation, reporting etc.) were not needed, as ISAE 3000 should be drafted as a stand-alone standard. In relation to the Framework, the IAASB concluded that ISAE 3000 should also include any material from the Framework that is required to make ISAE 3000 a stand-alone standard.

12. Nevertheless, the IAASB also recognized that ISAE 3000 should not be so long or unwieldy as to be impracticable to apply in light of the broad range of potential engagements that it may cover. Equally, the ISAE should facilitate innovation in the evolving field of assurance, not act as an impediment.

Categories of Engagements by ED-3000

13. ED-3000 recognized that two levels of assurance are possible for engagements: reasonable assurance and limited assurance. ED-3000 also deals with both attestation engagements and direct engagements. This results in four possible types of engagements under ED-3000:

Limited Assurance Attestation Engagement	Reasonable Assurance Attestation Engagement
Limited Assurance Direct Engagement	Reasonable Assurance Direct Engagement

14. Attestation engagements are often more familiar to many standards setters and practitioners, as audits and reviews of financial statements have been structured as attestation engagements, that is, where a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. However, direct engagements are common in the public sector and are undertaken in the private sector also.
15. As part of the revision, the boundaries between attestation and direct engagements were clarified. ED-3000 includes all engagements in which the practitioner measures or evaluates the underlying subject matter against the criteria as direct engagements. Included within direct engagements are engagements in which the practitioner measures or evaluates the subject matter without the participation or concurrence of the responsible party, as well as those cases in which the practitioner undertakes such evaluation or measurement, but obtains a representation from the responsible party. Previously, the latter types of engagement would not have been direct engagements.
16. To highlight the change in definitions, the IAASB also agreed to rename these categories of engagements. Specifically, “assertion-based” engagements under extant ISAE 3000 are renamed “attestation” engagements under ED-3000, and “direct reporting” engagements were renamed “direct” engagements.

Overview of Responses to ED-3000

17. Respondents from 57 organizations responded to ED-3000.

Stakeholder Category	Number of Responses
IFAC Boards and Committees (1)	1
Member Body (19)	19
Regulators and Oversight Authorities (4)	4
National Auditing Standard Setters (5)	5
Public Sector Organizations (11)	11
Accounting Firms (6)	6
Other Professional Organizations (10)	10
Individuals and Others (1)	1
Total	57

All comment letters are available at www.ifac.org/publications-resources/isae-3000-revised-assurance-engagements-other-audits-or-reviews-historical-fi.

18. Respondents' comments focused on several key matters:
- (a) Conceptual issues beyond the scope of the project;
 - (b) Inclusion of direct engagements;
 - (c) The definition of reasonable and limited assurance, and the differences between these levels of assurance;
 - (d) Misstatements, in particular how the concept of misstatements applies to attestation and direct assurance engagements;
 - (e) Application of ISAE 3000 by non-practitioners; and
 - (f) Calls for illustrative reports for each type of engagement.
19. The Task Force Chair will present at the June IAASB meeting a brief overview of the nature of the comments received on the above areas. The list of key matters raised by respondents does not cover all issues raised by respondents; a full comment analysis will be prepared for purposes of discussion at the September 2012 IAASB meeting.
20. This remainder of the Paper addresses only the first two issues listed above (items (i) and (ii)). The Task Force believes that the IAASB's direction on these issues will most assist the Task Force in progressing material for the September 2012 IAASB.

Section II – Issues for Consideration

Conceptual Issues Beyond the Scope of the Project

21. As noted above, the IAASB did not intend that the revision of ISAE 3000 introduce change to the fundamental concepts of assurance. Indeed, the project proposal noted that “the project should not entail revisiting conceptual matters settled at the time of revising the International Framework for

Assurance Engagements” – a stance that has been repeated through two successive *IAASB Strategy and Work Programs*.⁶

22. However, some respondents made comments on the fundamental concepts of assurance, indicating some desire for a more comprehensive evaluation of the concepts of assurance and the content of ISAE 3000. These commentators variously suggested that the focus of the project should be on further developing the Framework rather than ISAE 3000,⁷ that ISAE 3000 should not be a stand-alone standard,⁸ that all significant assurance concepts and definitions should be defined for all International Standards in the Framework,⁹ and that the conforming amendments to the Framework should be separately exposed.¹⁰
23. The Task Force understands and considered the rationale and importance of these comments. However, the Task Force believes that the cost and time constraints of doing so would be substantial. Such a project would delay the IAASB’s work in the assurance realm for a substantial period of time – even though the IAASB acknowledged the need to embrace innovation to maintain the role and relevance of assurance services in an evolving world in its *Strategy and Work Program 2012-2014*. These suggestions would also fundamentally alter the purpose of the Framework, would be difficult to reconcile with its non-authoritative status, and may also inhibit innovation. The Task Force notes that neither the Preface¹¹ nor the Statements of Membership Obligation¹² require use of the Framework – meaning that any definitions or terminology would need to be duplicated in the IAASB’s authoritative literature.
24. In addition, the Task Force notes that extant ISAE 3000 is extensively used and is working effectively in many jurisdictions around the world and that most respondents were, on balance, supportive of the main proposals in ED-3000. Accordingly, the Task Force believes that the project is scoped correctly and does not need to address fundamental concepts that are not causing difficulty in practice. Further, making ISAE 3000 no longer stand alone would mean that the IAASB would not have a standard applicable to assurance engagements on all types of subject matters. Therefore, the IAASB would need to issue a subject matter specific standard to meet each demand for a standard and practitioners would be left with no international standard to perform engagements for which a subject matter specific standard does not already exist. This would be a significant step back in the IAASB’s efforts to enhance the role, relevance and quality of assurance services in an evolving world.
25. The Task Force also notes that a new project to evaluate conceptual assurance issues would come at the expense of other planned work in the 2012–2014 period. Further, because the ED was based on not including fundamental conceptual changes, including such changes would likely require re-

⁶ For further explanation, see Agenda Item 4-B

⁷ AUASB

⁸ APB

⁹ ACCA

¹⁰ ICAEW, EBA and ACCA

¹¹ *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*

¹² www.ifac.org/sites/default/files/downloads/Statements_of_Membership_Obligations.pdf

exposure to enable respondents to consider the fundamentally changed Framework and ISAE 3000 – further delaying progress in this area.

26. Accordingly, the Task Force does not believe that the sentiments noted above give rise to a need for a re-evaluation of conceptual issues that were scoped out of the project from the beginning. In particular, the Task Force notes that relatively few comments received supported fundamental changes, and to further delay the project on the basis of these comments is not considered to be in the public interest. Instead, the Task Force recommends that the possibility of a project to address conceptual assurance issues be considered for the 2015–2018 period.

Matter for IAASB Consideration

1. The IAASB is asked to share its views on the Task Force's recommendation, supported by all but a few respondents, to not introduce fundamental conceptual changes from ED-3000.

Inclusion of Direct Engagements

27. ED-3000 covers both attestation engagements and direct engagements. These are defined as:

Attestation engagement—An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report.

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

28. Respondents were asked to consider whether ED-3000 properly defines, and explains the difference between, direct engagements and attestation engagements and contains objectives, requirements and other material appropriate to both. The majority of respondents generally supported the definitions and material in ED-3000 for both direct and attestation engagements, subject to minor clarifications.
29. However, some¹³ respondents expressed the view that ED-3000 was difficult to read and interpret in practice due to the inclusion of both attestation engagements, which are more commonly understood by practitioners, and direct engagements in a single standard. These respondents recommended that direct engagements be dealt with in a separate standard. Others did not explicitly raise the separation of attestation and direct engagements, but commented that they found the requirements and guidance pertaining to direct engagement to be insufficiently tailored. For example, specific comments were raised from many¹⁴ respondents with respect to the

¹³ ACAG1, ACCA, AICPA and KPMG.

¹⁴ AASB, ACAG, ACCA, AGBC, AGC, AGM, AGO, AGQ, AGSA, AICPA, AUASB, CIPFA, CGA, CMA-Canada, IBE-IRE, ICAP, ICPAS, IRBA, KPMG, MIA, NBA, NOREA, NZAUASB, PAS, SMPC and WAO.

application of the concepts of misstatements and the independence of the practitioner to direct engagements.

30. The Task Force is of the view that direct engagements should continue to be within the scope of ISAE 3000. This is primarily because having ISAE 3000 as a single umbrella standard for all assurance engagements (other than audits or reviews of historical financial information) supports the continued development of innovative assurance standards applicable to any underlying subject matter. Furthermore, almost all of the requirements and guidance in ISAE 3000 and the Framework apply equally to both attestation and direct engagements, which would mean that two standards would contain a high degree of duplicated material. The Task Force also believes that the comment letters have not raised any novel issues that cannot be addressed within the existing content and structure of ISAE 3000.
31. The Task Force acknowledges that continuing to include direct engagements in ISAE 3000 may require further tailoring, and will not address the comments regarding the readability of the standard. However, the Task Force will explore whether the material on direct engagements can be more clearly differentiated from that relevant to attestation engagements by, for example, using a columnar approach similar to that used in ISAE 3410.

Matter for IAASB Consideration

2. Does the IAASB agree that material addressing direct engagement should continue to be included in ISAE 3000?

Way Forward

32. The Task Force will present a full review of significant issues raised by respondents on ED-3000 and a first read draft of proposed revised ISAE 3000 (Revised) at the September 2012 IAASB meeting.

Material Presented

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| Agenda Item 4-A | Project Proposal – As approved by IAASB in March 2009 (for information) |
| Agenda Item 4-B | ED-3000 (for information) |

Action Requested

33. The IAASB is asked to consider, and provide input and guidance to the Task Force, on the above issues and recommendations.

List of Respondents

LIST OF RESPONDENTS-EXPOSURE DRAFT OF ISAE 3000		
#	Abbrev.	Respondent (57)
IFAC Boards and Committees (1)		
1.	IFAC SMP	SMP Committee
Member Body (19)		
2.	ACCA	The Association of Chartered Certified Accountants
3.	AICPA	The American Institute of Certified Public Accountants
4.	CGA	Certified General Accountants in Canada
5.	CIPFA	Chartered Institute of Public Finance and Accountancy
6.	CMA-Canada	The Society of Management Accountants of Canada
7.	CNDCEC	Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili
8.	FAR	FAR - Branschorganisationen för revisorer och rådgivare
9.	FSR	Foreningen af Statsautoriserede Revisorer
10.	HKICPA	Hong Kong Institute of Certified Public Accountants
11.	IBR-IRE	Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren
12.	ICAEW	The Institute of Chartered Accountants in England and Wales
13.	ICAP	Institute of Chartered Accountants of Pakistan
14.	ICPAS	Institute of Certified Public Accountants of Singapore
15.	IDW	Institut der Wirtschaftsprüfer
16.	JICPA	The Japanese Institute of Certified Public Accountants
17.	MIA	Malaysian Institute of Accountants
18.	NBA	Nederlandse Beroepsorganisatie van Accountants
19.	SAICA	The South African Institute of Chartered Accountants
20.	ZICA	Zambia Institute of Chartered Accountants
Regulators and Oversight Authorities (4)		
21.	AOB	Audit Oversight Board (Malaysia)
22.	EBA	European Banking Authority
23.	DFSA	Dubai Financial Services Authority
24.	IOSCO	International Organization of Securities Commissions
National Auditing Standard Setters (5)		
25.	APB	Auditing Practice Board
26.	AUASB	Australian Auditing and Assurance Standards Board
27.	CAASB	Canadian Auditing and Assurance Standards Board
28.	IRBA	Independent Regulatory Board for Auditors
29.	NZAASB	New Zealand Auditing and Assurance Board
Public Sector Organizations (11)		
30.	ACAG	Australasian Council of Auditors-General

31.	AGBC	Auditor General of British Columbia
32.	AGC	Office of the Auditor General of Canada
33.	AGM	Auditor General of Manitoba
34.	AGO	Auditor General of Ontario
35.	AGQ	Auditor General of Quebec
36.	AGSA	Auditor General of South Africa
37.	GAO	United States Government Accountability Office
38.	NAO-UK	UK National Audit Office
39.	PAS	Provincial Auditor Saskatchewan
40.	WAO	Wales Audit Office
Accounting Firms (6)		
41.	DTT	Deloitte Touche Tohmatsu
42.	EYG	Ernst & Young Global
43.	GTI	Grant Thornton International Ltd
44.	KPMG	KPMG IFRG Limited
45.	PWC	PricewaterhouseCoopers
46.	RSM	RSM International
Other Professional Organizations (10)		
47.	ASSIREVI	ASSIREVI
48.	EFAA	European Federation of Accountants and Auditors for SMEs
49.	FEE	Federation des Experts Comptables Europeens
50.	HKEX	The Stock Exchange Hong Kong
51.	HoTARAC	Australian Dept of Treasury and Finance
52.	IIA-AU	The Institute of Internal Auditors - Australia
53.	ISACA	Information Systems Audit and Control Association
54.	LRQA	Lloyd's Register Quality Assurance Ltd
55.	NOREA	NOREA, de beroepsorganisatie van IT-auditors
56.	SRA	SRA
Individuals and Others (1)		
57.	J. Maresca	Dr. Joseph S. Maresca