

**ISAE 3000<sup>1</sup>— Issues and Task Force Recommendations**

1. This paper is structured as follows:
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**I. Summary of the History of the IAASB’s Revision of ISAE 3000 and Key Milestones**

## Project Proposal

2. Extant ISAE 3000 was approved by the IAASB in December 2003. At the time of its release, the IAASB acknowledged that assurance services other than audits and reviews of HFI are an evolving field and, accordingly, decided that ISAE 3000 should be kept under review.
3. To inform the IAASB’s approval of a project proposal, a survey was sent to national auditing and assurance standard setters and IFAC member bodies in certain countries<sup>2</sup> 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.
4. 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, and (ii) to adopt the clarity drafting conventions.

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<sup>1</sup> International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

<sup>2</sup> Australia, Brazil, Canada, China, France, Germany, India, Japan, the Netherlands, New Zealand, South Africa, the United Kingdom, and the United States.

5. The project proposal noted that conforming amendments may be needed to the Framework<sup>3</sup> (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 3402<sup>4</sup>). 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.

#### Exposure of Proposed ISAE 3000 (Revised)

6. After debate over seven IAASB meetings, the IAASB approved and released proposed ISAE 3000 (Revised) (ED-3000) for exposure in April 2011. A list of respondents to ED-3000 is provided in Appendix 1.
7. The IAASB discussed issues arising from exposure at five of its meetings over 2012 and 2013. The deliberations were protracted primarily as a result of the IAASB's decision to prioritize the Auditor Reporting project.
8. Appendix 2 to this Paper briefly summarizes the key themes arising from the comments received on exposure and how the IAASB has agreed to address those comments.

## II. Key Issues for IAASB Discussion

### *Section II-A – Removal of Requirements and Application Material Addressing Direct Engagements*

9. At the April 2013 IAASB meeting the IAASB concluded that ISAE 3000 should focus on attestation engagements, but also permit application of the ISAE to direct engagements, subject to appropriate adaptation in the engagement circumstances.
10. In making this decision, the IAASB noted the difficulty in finalizing a standard with requirements and application material in respect of both attestation and direct engagements in a reasonable time period, and the potential for the final standard to be difficult to apply in practice. However, the IAASB also noted that both extant ISAE 3000 and the Framework apply to both attestation and direct engagements, and amending the Framework and ISAE 3000 to remove direct engagements would be outside the scope of the project to revise ISAE 3000. The IAASB also noted that consideration of any future work on revising the Framework or developing a standard specifically addressing direct engagements can be undertaken, along with consideration of other future projects and actions, when the IAASB deliberates its future Strategy and Work Program.
11. As a result of this decision, the Task Force simplified the ISAE by removing requirements and guidance that was specific to direct engagements, but retained some of the material in the definitions to assist practitioners in distinguishing direct engagements from attestations engagements.
12. In response to this decision, the Task Force removed the requirements and application material specific to direct engagements and made other consequential changes. The Task Force also redrafted, where necessary, requirements and application material that had been drafted to better address direct engagements.

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<sup>3</sup> *International Framework for Assurance Engagements*

<sup>4</sup> ISAE 3402, Assurance Reports on Controls at a Service Organization

13. The major changes are as follows (all reference in this paragraph are to Agenda Item 2-D<sup>5</sup>):
- a) Scope – Paragraph 2 – Clarification that the ISAE is focused on attestation engagements, but also applies to direct engagements, adapted as necessary in the engagement circumstances. To aid readers of the “Scope” section, the definition of “direct engagement” has been retained in paragraph 12(a)(ii)(b) to assist users of the ISAE who may not be familiar with direct engagements to understand more about how IAASB literature describes direct engagements and how they are different from attestation engagements;
  - b) Removal of “Given the purpose and scope” – (Paragraphs 10, 12(ta), 12(va), A91B);
  - c) Work effort (Paragraphs 37AAA(L) and (R), 37AA(L) and (R), 42AA(L) and 41AA(R), 42B(L) – deletion of these paragraphs as they only addressed direct engagements;
  - d) Forming the assurance conclusion (Paragraph 64, A99B) – Removal of direct engagement specific material on accumulating the results of procedures performed;
  - e) Reporting (Paragraph 68, A142A, A165) – removal of direct engagement specific material; and
  - f) Application material – While there are too many changes to list, the most significant changes are removal of material regarding the descriptions of direct engagements in paragraphs A4–A6 and the criteria for direct engagements in A10.

Many of these changes resulted in consequential changes elsewhere in the ISAE.

14. The feedback from the IAASB members on the version circulated out of session also indicated that a couple of members believed that paragraph 2 was too strong on the need to use ISAE 3000 when conducting direct engagements, particularly in light of the lack of material specifically addressing direct engagements. Accordingly, the Task Force has redrafted the description of the scope of ISAE 3000 in paragraph 2 so that it now reads:

*Although this ISAE contains requirements and application and other explanatory material specific to reasonable and limited assurance attestation engagements, this ISAE also applies to direct engagements, adapted as necessary in the engagement circumstances.*

15. The Task Force notes that, as extant ISAE 3000 and the Framework currently apply to direct engagements (albeit without much specific material addressing direct engagements) and ED-3000 did not ask respondents for their views on removing direct engagements from the scope of ISAE 3000. This was because consideration of removing direct engagements from ISAE 3000 is not within the mandate of the project proposal. Consequently, any decision that suggests ISAE 3000 does not cover direct engagements will warrant careful consideration of the need to re-expose. The Task Force also notes that few respondents wanted ISAE 3000 to not address direct engagements, rather the focus of commentary was on the specifics of how direct engagements were addressed. Finally, the Task Force does not believe it is in the public interest to allow practitioners to ignore, without any consideration, the strengthened requirements and application material in ISAE 3000 when performing direct engagements.

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<sup>5</sup> Agenda Item 2-D has been renumbered to improve ease of reading. Accordingly, some of the paragraph references in this paragraph refer to the original numbering shown in deleted text in Agenda Item 2-D.

**Matter for IAASB Consideration**

1. Does the IAASB support the Task Force's changes regarding direct engagements?

*Section II-B – Forms of Reporting in an Attestation Engagement*

16. ISAE 3000 is an umbrella standard and needs to permit a variety of reporting practices. Accordingly, paragraph 68(l)(iv) of Agenda Item 2-D permits a range of ways to word the practitioner's conclusion.
17. The IAASB has previously asked the Task Force to provide further clarity in ISAE 3000 on "direct reporting," which is when the practitioner's conclusion is phrased in terms of the underlying subject matter and the criteria or where the conclusion is worded in terms of the subject matter information (and, if necessary, the underlying subject matter) and criteria.<sup>6</sup> In particular, the IAASB noted that some practitioners would be more familiar with conclusions worded in terms of a statement made by the appropriate party. Accordingly, the Task Force believed that some application material would be beneficial to users of ISAE 3000.
18. Paragraph 68(l)(iv) of Agenda Item 2-D requires that:

*The conclusion...shall be phrased using appropriate words for the underlying subject matter and applicable criteria given the engagement circumstances and shall be worded in terms of the underlying subject matter, or the subject matter information, and the applicable criteria; or a statement made by the appropriate party.*

Paragraph A172 provides examples of how this may be applied in practice:

*The practitioner's conclusion can be worded either:*

- *In terms of the underlying subject matter, or the subject matter information, and the criteria (examples for a reasonable assurance engagement include: "In our opinion, the entity has complied, in all material respects, with XYZ law," or "In our opinion, the forecast performance is properly prepared, in all material respects, based on XYZ criteria"); or*
  - *In terms of a statement made by the appropriate party (examples for a reasonable assurance engagement include: "In our opinion, the appropriate party's statement that the entity has complied with XYZ law is, in all material respects, fairly stated," or "In our opinion, the appropriate party's statement that the key performance indicators are presented in accordance with XYZ is, in all material respects, fairly stated).*
19. The Task Force believes that these examples provide a useful illustration on the various ways in which a practitioner can express a conclusion under ISAE 3000. The Task Force also notes that different forms of conclusions were permitted under extant ISAE 3000, and the Task Force did not note any significant concerns expressed by respondents to ED-3000.

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<sup>6</sup> For example, the practitioner's conclusion in the illustrative report in ISAE 3420 is worded in terms of the subject matter information and criteria.

**Matter for IAASB Consideration**

2. Does the IAASB support the Task Force's proposal to address the forms of reporting?

*Section II-C – Conforming Amendments*

Pronouncements Affected

20. The Task Force has proposed conforming amendments to reflect the revisions to ISAE 3000. Conforming amendments are proposed to:
- The Framework;<sup>7</sup> (see Agenda Item 2-E)
  - ISAE 3402;<sup>8</sup> (see Agenda Item 2-F)
  - ISAE 3410;<sup>9</sup> (see Agenda Item 2-G) and
  - ISAE 3420.<sup>10</sup> (see Agenda Item 2-H)
21. Consistent with the position adopted in ED-3000, the Task Force is not proposing changes to ISAE 3400.<sup>11</sup> In ED-3000, it was noted that the IAASB concluded that consequential amendments should not be proposed to ISAE 3400 as it had not been updated to take account of developments in other standards, including extant ISAE 3000, since it was issued. Proposed amendments may suggest that the standard has been subject to a more significant update that has been the case. Consideration of whether to revise ISAE 3400 may be addressed in setting the IAASB's *Strategy and Work Plan, 2015–2019*.
22. The Task Force does not believe that any amendments are needed to other IAASB standards.

Approach to Conforming Amendments

23. The Task Force debated several approaches to making conforming amendments to the other 3000-level standards, in light of ISAE 3000's position as the umbrella standard for these standards. The Task Force noted that removing duplication between ISAE 3000 and the subject matter specific ISAEs and aligning the requirements and application material perfectly would require substantial rewriting of those ISAEs. For example, ISAE 3410 contains many requirements and application material that are similar or identical to ISAE 3000, but to remove the duplication would require, among other things, rewriting and restructuring the work effort paragraphs to retain only additional requirements or guidance, and is thus likely to result in ISAE 3410 being harder to read. Accordingly, the Task Force has proposed changes that are necessary to reflect the differences between extant ISAE 3000 and proposed ISAE 3000 (Revised) but have avoided making gratuitous changes for minor wording differences.

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<sup>7</sup> International Framework for Assurance Engagements

<sup>8</sup> International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*

<sup>9</sup> International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>10</sup> International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*

<sup>11</sup> ISAE 3400, *The Examination of Prospective Financial Information*

24. One Task Force member does not support the proposed consequential amendments to ISAE 3420 as he believes that it is not consistent with extant ISAE 3000, and the degree of misalignment is greater with proposed ISAE 3000 (Revised). This Task Force member would prefer that no conforming amendments be proposed to ISAE 3420 at this time, and that a post implementation review of ISAE 3420 be conducted prior to making conforming amendments. The remainder of the Task Force believes that the consistency of ISAE 3420 with extant ISAE 3000 was considered by the IAASB in finalizing ISAE 3420, and that amendments are only needed to reflect changes between extant ISAE 3000 and proposed ISAE 3000 (Revised).
25. The IAASB is asked to provide any overall comments or concerns, as well as any more detailed comments, about the conforming amendments to Staff as early as possible.

**Matter for IAASB Consideration**

3. Does the IAASB agree with the Task Force's proposed conforming amendments to the Framework, ISAE 3402, ISAE 3410 and ISAE 3420?

**III. Other Changes to Proposed ISAE 3000 (Revised) Since April 2013 IAASB Meeting**

26. In brief, and in addition to comments of an editorial nature, the key changes the Task Force has made in light of members' comments are:

- Giving greater prominence to the need for suitable criteria by requiring an explicit assessment of the suitability of criteria and placing it more prominently in the preconditions for an assurance engagement (see **paragraphs 26A and 25 of Agenda Item 2-D**).

The Task Force also took the opportunity to provide greater consistency with the ISAs by consistently using the term "applicable criteria" rather than switching between "suitable criteria" and "applicable criteria" throughout the ISAE. The Task Force notes that using "applicable criteria" is consistent with the approach taken in the ISAs, where the term "applicable financial reporting framework" is consistently used throughout the ISAs to refer to a financial reporting framework that is acceptable (i.e., criteria that are suitable), rather than referring to "acceptable financial reporting framework".

- Relocating to the application material the explanation that, although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements (see **paragraph A28B of Agenda Item 2-D**).
- Removing the phrase "whether intentional or due to error" as some members had noted that this would be difficult to reconcile with the construction used in the ISAs (which is "whether due to fraud or error") (See, for example **paragraph 10 of Agenda Item 2-D**).

The Task Force notes that the important message about the kinds of misstatements included remains in the definition of "misstatements" (see the last sentence of **paragraph 12(n) of Agenda Item 2-D**).

- Clarifying, in several places, which party performs certain actions, such as measurement/evaluation or the taking of responsibility for a statement (see, for example, **paragraph 12(a)(ii)(a) and 53 of Agenda Item 2-D**).

- Inserting application material to explain the role of Appendices (see **paragraph A28A of Agenda Item 2-D**).
- Clarifying that an inability to obtain sufficient appropriate evidence to form a reasonable assurance conclusion is not an acceptable reason for changing from a reasonable assurance engagement to a limited assurance engagement (see **paragraph A58 of Agenda Item 2-D**).

#### IV. Other Matters

##### *Section IV-A – Effective Date*

27. In ED-3000, it was noted that the IAASB believes that an appropriate effective date for the final ISAE 3000 would be 12–15 months after approval of the final standard but with earlier application permitted. The IAASB welcomed views on whether this would provide a sufficient period to support effective implementation of the ISAE.
28. The majority of respondents supported the IAASB’s proposed effective date. A few respondents<sup>12</sup> supported a longer implementation period to allow time for training staff and adjusting tools.
29. The Task Force notes that the effective date of ISAE 3000 is worded in terms of the date of the assurance report (see **paragraph 9 of Agenda Item 2-D**) and may be applied to assurance engagements for periods of any length (or indeed to engagements which cover only a point in time). Therefore, the Task Force recommends that the ISAE be effective for assurance engagements when the assurance report is dated on or after November 15th, 2015 to allow time for translation and training, with early application permitted

##### **Matter for IAASB Consideration**

4. Does the IAASB agree with the Task Force’s recommendation that the effective date be 15 months after approval of the final standard?

##### *Section IV-B – Other Matters Raised in ED-3000*

30. ED-3000 also asked for respondents views on the applicability of ISAE 3000 to the public sector, Small- and Medium-Sized Practices (SMPs) and Small- and Medium-Sized Entities (SMEs), developing nations, and whether there are any translation issues noted.
31. There were no significant concerns expressed with regard to SMPs, SMEs, Developing Nations, nor were there any translation issues identified. Comments arising from the public sector perspective are reflected in the discussion in Section I-A and Appendix 2 as they largely concerned the specifics of applying ISAE 3000 to direct engagements.

##### *Section IV-C - Due Process Matters*

##### Significant Matters Identified by the IAASB Task Force

32. In the Task Force’s view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its considerations therein, have all been reflected in the issues papers presented to the IAASB at its meetings. In the IAASB Task Force’s view, there are no

<sup>12</sup> AGQ, IDW

significant matters it has discussed in this project that have not been brought to the IAASB's attention.

33. The Task Force does not believe that field testing of the proposals, or a roundtable, are warranted, given that there were no suggestions from respondents that it was needed and the changes proposed strengthen and clarify extant ISAE 3000 based on experiences from the implementation of extant ISAE 3000.

#### Consideration of the Need for Re-Exposure

34. To facilitate the IAASB's consideration of the need for re-exposure, Agenda Item 2-D shows the marked changes from ED-3000. The Task Force will provide the IAASB with a summary list of the main changes during the September 2013 IAASB meeting.
35. Overall, the TF does not believe that re-exposure is needed as the major changes are in response to comments received on exposure, and there have been no further changes that did not arise from matters covered in ED-3000. The changes made are not fundamental in nature, but rather are further clarifications of definitions, requirements and guidance.
36. However, one correspondent Task Force member believes that the IAASB's decision to remove material specifically addressing direct engagements "would effectively remove IFAC from an important and growing assurance market and put the profession and public at unnecessary risk." The remainder of the Task Force believes that re-exposure is not necessary, as there was little specific material on direct engagements in extant ISAE 3000 or ED-3000, and so the position adopted with respect to direct engagements will not result in any significant practical change as ISAE 3000 will still apply to direct engagements. Further, the IAASB has extensively explored, and determined it not appropriate, to include material specifically addressing direct engagements in ISAE 3000, and that any further deliberation of developing such material is a topic for separate consideration.

#### **Matter for IAASB Consideration**

5. Does the IAASB agree that re-exposure of the proposed ISAE 3000 (Revised) is not necessary?

**Appendix 1**

<b>LIST OF RESPONDENTS-EXPOSURE DRAFT OF ISAE 3000</b>		
#	Abbrev.	Respondent (57)
<b>IFAC Boards and Committees (1)</b>		
1.	IFAC SMP	SMP Committee
<b>Member Bodies (19)</b>		
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 Réviseurs 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
<b>Regulators and Oversight Authorities (4)</b>		
21.	AOB	Audit Oversight Board (Malaysia)
22.	EBA	European Banking Authority
23.	DFSA	Dubai Financial Services Authority
24.	IOSCO	International Organization of Securities Commissions

<b>National Auditing Standard Setters (5)</b>		
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
<b>Public Sector Organizations (11)</b>		
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
<b>Accounting Firms (6)</b>		
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
<b>Other Professional Organizations (10)</b>		
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
<b>Individuals and Others (1)</b>		
57.	J. Maresca	Dr. Joseph S. Maresca

## **Summary of the Key Themes Arising From Exposure of ED-3000 and Their Disposition**

### **Conceptual Issues Beyond the Scope of the Project**

#### *Comments Received on Exposure*

1. As noted above, the IAASB did not intend that the revision of ISAE 3000 introduce change to the fundamental concepts of assurance. 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. For further discussion of the comments received in this regard, please refer to Agenda Item 4 of the June 2012 IAASB meeting papers.

#### *Task Force/IAASB Response*

2. At its June 2012 meeting, the IAASB noted that the revision of ISAE 3000 was not intended to introduce change to the fundamental concepts of assurance as described in the extant ISAE 3000 and Framework.

### **Reasonable Assurance (RA) and Limited Assurance (LA)**

#### *Definitions and Work Effort*

#### *Comments Received on Exposure*

3. Respondents' comments on the definitions of RA and LA showed that the majority supported both definitions, although commentators suggested that the definition of LA was too dependent on user needs, which may lead to inconsistent application. Other respondents were broadly supportive of the definitions, but suggested that ISAE 3000 needed further requirements and guidance to better illustrate the differences between the two levels of assurance or that examples of LA engagements were needed to help illustrate the effect of the definitions. Other comments made included:
  - The differences between RA and LA should be more than just a difference in engagement risk;
  - That LA should be driven by procedures, rather than evidence or a planned level of assurance;
  - That, regarding the practitioner's conclusions under RA and LA, "positive" and "negative" are seen to be clearer labels than that proposed in ED-3000;
  - That the concept of "plausibility" should be used for LA, as it is seen by a few commentators to better differentiate LA from RA, or, alternatively that the terms "positive assurance" and "reserved affirmation" be used for RA and LA respectively.
4. ED-3000 had a number of requirements that require a different work effort for RA and LA. For example, ED-3000 required a risk assessment for RA but not for LA. Respondents broadly supported the requirements and application material relative to the work effort for RA and LA. However, in addition to various editorial comments, respondents also suggested changes such as refinement of the "deep dive", that LA should have a risk assessment to provide a link to engagement risk, that an understanding of internal controls was needed for LA as well as RA, and

better distinguishing the work effort and associated requirements and application material between RA and LA.

These comments, taken in aggregate, indicate a broad belief that further effort was needed by the IAASB to distinguish RA and LA and to enhance the work effort requirements and guidance. For further discussion of the comments received in this regard, please refer to Agenda Item 3 of the September 2012, Agenda Item 5-A of the December 2012, and Agenda Item 4-A of the April 2013 IAASB meeting papers.

#### Task Force/IAASB Response

5. At its September 2012 meeting, in response to the Task Force's proposals to better address both LA and RA, views expressed by the IAASB included that while the proposals regarding LA were technically correct, that they were hard to understand, and that some wished to understand what differences existed between the Task Force's proposals and recently approved standards addressing LA such as ISAE 3410 and ISRE 2400. By contrast, few comments were made regarding RA, indicating that finding terminology to describe the LA work effort continues to be challenging.
6. The IAASB also considered the relationship between the definition of LA and the definition of RA, focusing on the lack of symmetry between the two definitions. The IAASB discussed whether the approaches used in ISRE 2400 (Revised) and ISAE 3410 could be leveraged to provide a direction in finalizing ISAE 3000 (Revised).
7. In response, the IAASB explored two ways of describing the work effort for LA, one which used the term "acceptable level of risk" in key work effort paragraphs (such as the "deep dive") and, the other, using terms such as "may," "likely," and "not likely" those paragraphs. After extensive debate the IAASB concluded that the latter option was preferable due to the need for consistency with recently approved standards such as ISAE 3410 and ISRE 2400, the need for a clear and understandable work effort paragraph that adequately distinguishes between limited and reasonable assurance, and the difficulty in operationalizing the concept of "acceptable level of risk."
8. The IAASB also agreed to a number of key changes to the work effort paragraphs in response to the comments received on ED-3000, including: using a columnar format similar to ISAE 3410, enhancing the risk consideration approach for LA engagements; requiring for LA, that the practitioner consider the process used to prepare the subject matter information; and aligning the terminology with ISAE 3410 and ISRE 2400<sup>13</sup> for the circumstance when the practitioner becomes aware of a matter that causes the practitioner to believe that the subject matter information may be materially misstated.

#### *Reporting Considerations*

##### Comments Received on Exposure

9. The Explanatory Memorandum to ED-3000 posed several questions relevant to the practitioner's report. In brief, these questions asked respondents whether they supported the summary of the work performed as the basis for the practitioner's conclusion, whether they supported the "health

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<sup>13</sup> title

warning” that LA engagements are more limited than RA engagements, whether more guidance was needed on the summary of work performed and whether they supported the “negative” form conclusion, “...nothing has come to our attention...,” for LA engagements.

10. A significant majority of the respondents supported the summary of work performed as the basis for the practitioner’s conclusion for both RA and LA. Those who did not support it highlighted the potential for misleading users into believing that LA involved a higher level of assurance than RA due to the potential for practitioners to include a greater amount of information about the engagement procedures – particularly as a result of the statement in paragraph 60(k) in that an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance conveyed by the practitioner’s conclusion.
11. With respect to whether further requirements or guidance are needed on the level of detail for the summary of work performed described in the LA report, views were more varied. While a majority did not believe further requirements were needed, many respondents, including some who supported the requirements in ED-3000 in this respect, believed that further guidance material was needed in either ISAE 3000 or in the topic-specific ISAEs and several respondents believed an illustration of the summary of procedures was needed to demonstrate the IAASB’s intention. Still others expressed the view that the practitioner’s report should detail the procedures that would have been undertaken in an RA engagement.
12. In relation to the “health warning” that LA engagements provide more limited assurance than RA engagements, a majority supported the IAASB’s position that a statement should be included in LA reports to the effect that the procedures in a LA engagement are more limited than for a RA engagement. However, several respondents were opposed to the statement believing: that users did not understand RA, and would therefore not be able to appreciate the difference; that users would not appreciate the significance of the statement; that a list of omitted procedures would be needed to make the statement meaningful, or that the statement may lead users into believing that a lower level of assurance has been obtained than is the case.
13. Finally, in relation to the form of the practitioner’s conclusion, the majority of respondents supported the IAASB’s use of the negative form of conclusion. Opponents of the negative form of conclusion highlighted that it did not convey the value of the engagement, that it was confusing or subjective, or that they preferred a positive form of opinion. Respondents also noted that, while ED-3000 mentioned the concept of an emphasis of matter, there were no requirements or application material to support this concept.
14. For further discussion of the comments received in this regard, please refer to Agenda Item 3 of the September 2012 and Agenda Item 4-A of the April 2013 IAASB meeting papers.

#### Task Force/IAASB Response

15. The IAASB agreed to continue to use the summary of work performed in the practitioner’s report and to provide further guidance to (a) note that in a LA assurance report, while identifying the procedures that would have been performed in a RA engagement is sometimes useful, a complete identification of all procedures may not be possible; and (b) highlight factors to consider in determining the level of detail to be provided in the summary of the work (see paragraphs A169 and A170 in Agenda Item 2-D).

16. The IAASB also agreed to continue to include the “health warning” that the procedures in a LA engagement are more limited than for a RA engagement, agreeing with the majority of respondents that it was needed to avoid users overestimating the level of assurance provided. After debating the issue, the IAASB agreed that the health warning should be similar to that in ISAE 3410, with some limited editorial modifications.
17. Finally, the IAASB agreed to various amendments to address the comments on the form of the practitioner’s conclusions including adding a requirement and application material (see paragraphs 68(l)(iv) and A175 of Agenda Item 2-D) that the conclusion should be phrased using appropriate words for the subject matter and criteria; providing example conclusions for both RA and LA (see paragraphs A172 and A174 of Agenda Item 2-D); requiring that, when the practitioner expresses a modified conclusion, the assurance report contain a section describing the matter giving rise to the modification; and adding material to address both emphasis of matter and other matter paragraphs, drawn in part from ISRE 2400 and ISAE 3410 (see paragraph 72 of Agenda Item 2-D).
18. The IAASB also agreed that illustrative reports would not be provided in ISAE 3000. This is because other ISAEs, such as ISAE 3402, ISAE 3410 and ISAE 3420 already contain illustrative reports, but also because illustrative reports will be of limited value given the wide range of possible underlying subject matters. The Task Force notes that the additional guidance on reporting highlighted in the paragraph above achieves much the same goal.

## **Relationship with the Framework**

### *Comments Received on Exposure*

19. A respondent suggested that ISAE 3000 should better explain its relationship with the Framework and improve the referencing of the Framework in ISAE 3000, noting that “it remains fundamental that practitioners read the Framework in its entirety.”

### *Task Force/IAASB Response*

20. The Task Force noted that ISAE 3000 must be able to stand alone, and should not require practitioners to read the Framework itself. The Task Force also noted that ED-3000 did not describe the scope of engagements to be covered by the ISAE itself; rather, the scope of ISAE was set in the Framework, which is non-authoritative and is not adopted in every jurisdiction. Accordingly, the Task Force included a new scope section (see paragraphs 5–8 of Agenda Item 2-D).

## **Application of ISAE 3000 by Competent Practitioners**

### *Comments Received on Exposure*

21. ED-3000 proposed that competent practitioners who are not professional accountants should be permitted to apply ISAE 3000. In permitting this, the IAASB recognized that the definition of a professional accountant<sup>14</sup> excludes many assurance professionals who already perform ISAE 3000 engagements or similar engagements under national standards. The position adopted in ED-3000 also recognized the reality that the IAASB is not able to prevent people from asserting compliance

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<sup>14</sup> A professional accountant is defined in the IAASB Glossary as “An individual who is a member of an IFAC member body.”

with its standards, and that it would be preferable to instead set out clear requirements for these circumstances.

22. Therefore, ED-3000 required that the engagement partner has specialist knowledge and competence in assurance skills and techniques developed through extensive training and practical application and be a member of a firm that applies ISQC 1, or other professional requirements, or requirements in laws or regulations, that are at least as demanding as ISQC 1. Further, the practitioner was required to comply with Parts A and B of the IESBA Code related to assurance engagements, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding
23. The majority of respondents broadly supported the position adopted in ED-3000. However, some respondents disagreed with the extension to non-‘professional accountants’, noting, for example, that it may lead to inconsistent quality and that these practitioners may lack sufficient assurance skills and experience. For further discussion of the comments received in this regard, please refer to Agenda Item 5-A of the December 2012 IAASB meeting papers.

*Task Force/IAASB Response*

24. The IAASB agreed to continue to permit competent practitioners to apply ISAE 3000, and also determined that non-‘professional accountants’ should state the specific ethical and quality control standards they have used in the practitioner’s report(see paragraphs 68(i) and (j) of Agenda Item 2-D).