

**PROJECT PROPOSAL
Revision of ISAE 3000****A. Subject**

- A.1 Revision of International Standard on Assurance Engagements (ISAE) 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” to: (a) incorporate enhanced requirements and guidance, and (b) adopt the clarity drafting conventions. This project will also consider whether separate ISAEs are needed on topics such as planning, using the work of experts, and documentation.

B. Background and Relevant Developments**Background**

- B.1 ISAE 3000 and the International Framework for Assurance Engagements (the Assurance Framework) were approved by the IAASB in December 2003.
- B.2 The Assurance Framework defines and describes the elements and objectives of an assurance engagement, and identifies the engagements to which International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs) and International Standards on Assurance Engagements (ISAEs) apply. It provides a frame of reference for: (a) practitioners; (b) others involved with assurance engagements (such as those engaging a practitioner and the intended users of an assurance report), and (c) the IAASB in its development of ISAs, ISREs and ISAEs.
- B.3 The Assurance Framework does not establish standards or provide procedural requirements for the performance of assurance engagements. ISAE 3000 on the other hand “*establishes basic principles and essential procedures for all assurance engagements other than audits or reviews of historical financial information covered by ISAs or ISAEs.*”
- B.4 Together, ISAE 3000 and the Assurance Framework replaced ISAE 100, Assurance Engagements, which was approved by the IAASB’s predecessor, the IAPC,¹ in June 2000.
- B.5 ISAE 3000 was not redrafted as part of the IAASB’s Clarity Project.

Relevant Developments*Calls from Stakeholders*

- B.6 The Media Release accompanying the issue of ISAE 3000 and the Assurance Framework in January 2004 noted that “*As the provision of broader assurance services is an evolving field, the IAASB intends to keep the practical implementation of the Framework and ISAE 3000 under review, and invites feedback from practitioners and others on their experience with applying them.*”
- B.7 Much of the feedback received as a result of this invitation has focused on calls for the IAASB to develop subject matter-specific guidance for assurance on, e.g., sustainability

¹ International Auditing Practices Committee.

reports, internal control, GHG emissions and prospective financial information. These calls have been dealt with separately in the *IAASB Strategy and Work Program, 2009-2011*. However, other informal/anecdotal feedback (e.g., discussions with IESBA members and staff when IESBA was revising the Code of Ethics to accommodate assurance engagements) has suggested that practitioners and others may have difficulty understanding and applying some of the concepts embedded in ISAE 3000.

National Auditing Standard Setters (NSS)

B.8 The UK Auditing Practices Board (APB), as a result of its work on developing Standards for Investment Reporting (SIRs), wrote to the IAASB in 2006 to describe its experience of using ISAE 3000 when developing assurance standards relating to specific engagements. In drafting the SIRs, the APB's starting point was to develop specific requirements based on the structure and requirements of ISAE 3000. Although the APB found that using ISAE 3000 provided a helpful structure, it encountered a number of practical difficulties, which fell into the following categories:

- It was difficult to apply the ISAE 3000 concepts of "subject matter," "suitable criteria," and "subject matter information" in practice;
- Some of ISAE 3000's requirements appeared redundant in the context of the specific regulations applicable to the subject matters of the SIRs; and
- Some of ISAE 3000's requirements appeared to introduce practical difficulties, including in relation to the identification of suitable criteria in the practitioner's report.

B.9 The APB's letter was discussed at the March 2006 NSS meeting, at which participants noted that, except for the UK, there had not been many attempts in their jurisdictions (at that time) to use ISAE 3000 as a starting point to develop national standards. Nonetheless, one participant observed that an apparent shortcoming of ISAE 3000 was that the same type of opinion was leading to different levels of work in different jurisdictions.

IAASB Strategy and Work Program

B.10 Further feedback from stakeholders on the need to revise ISAE 3000 was received when developing the *IAASB Strategy and Work Program, 2009-2011*, as described in the Basis for Conclusions:

The IAASB's discussion of proposed ISAE 3402, *Assurance Reports on Controls at a Third Party Service Organization* highlighted a need to revise ISAE 3000 to include matters of a general nature dealt with in the ISAs that also apply to assurance engagements. At the time, the view was expressed that any topic-specific ISAEs would need to include such material if ISAE 3000 is not revised. This may result in considerable duplication.

A few respondents to the Consultation Paper also suggested that the revision of ISAE 3000 be a high priority. This is not only so that it will be in the clarity style, but to ensure that all the concepts from the clarity redrafted ISAs relevant to other assurance engagements are embedded in the ISAE. Given the number and nature of assurance engagements that professional accountants perform, these respondents believed that a more robust assurance standard would assist in the harmonization of practices around the world and improve the consistency and comparability of reporting. One respondent cited

the need to provide more guidance in the areas of materiality, engagement risk, the use of experts, and documentation; and to explore the concept of joint assurance engagements.

In considering the above, the IAASB agreed that, as a first step, it should determine how ISAE 3000 is being used at national level and what the identified shortcomings are. This should be done by way of consultation with audit firms, national standard setters and other interested parties. Future actions should be determined based on the outcome of these consultations. However, these actions should not entail revisiting conceptual matters settled at the time of revising the *International Framework for Assurance Engagements* (which was done in conjunction with the last revision of ISAE 3000).

Survey of Audit Firms, NSS and Other Interested Parties

- B.11 In October 2008, a Survey about the use of ISAE 3000 was sent to NSS and IFAC Member Bodies in Australia, Brazil, Canada, China, France, Germany, India, Japan, the Netherlands, New Zealand, South Africa, the United Kingdom, and the United States. It was also sent to the TAC nominees on the IAASB, and a number of INTOSAI members and regional bodies, particularly with respect to questions 5-8. The Survey is attached to this Proposal as Appendix 1.
- B.12 A total of 17 responses were received. Not all respondents expressed an overall opinion about whether ISAE 3000 should be revised, but of the nine who did, all noted their support for the IAASB undertaking this project.²

Growth in Assurance Engagements and National Standards

- B.13 The first IAPC exposure draft on assurance engagements³ was issued in 1997 to recognize “*the increasing demand for information on a broad range of subject matters to meet the needs of decision-makers, and the consequent need in both the private and public sectors for services that enhance the credibility of that information.*”⁴ That demand does not appear to have abated since 1997, and in fact a number of respondents to the Survey from key jurisdictions commented on the continuing increase in demand:

The demand for ASAE 3000 type assurance engagements has increased in recent years and is likely to increase even further in future. (Australia)

There is an increasing demand for assurance on internal controls and non-financial performance, and ISAE 3000 is providing a useful framework to report on the basis of either reasonable or limited assurance. (UK)

There is a growing demand for assurance engagements other than audits or reviews of historical financial information. ISAE 3000 has a critical role to play in the development of the basis of pronouncements on such assurance engagements. (Japan)

Use of ISAE 3000 is probably increasing in New Zealand, largely in response to market initiatives.

² Many suggestions were made by respondents about the issues that should be addressed as part of this project. Those suggestions have been used in drafting Section C “Outline of the Project.”

³ “Reporting on the Credibility of Information.”

⁴ “Report on the issues arising from exposure drafts of the International Standard on Assurance Engagements.”

Attest engagements have been increasing as more companies are asking for assurance over various types of subject matter. (USA)

In trans-national assurance engagements on information other than historical financial information the larger and mid-sized firms in Germany commonly use ISAE 3000.

B.14 Respondents to the survey also noted numerous national equivalents of ISAE 3000, and/or national subject matter-specific standards that have been developed in recent years which are based on, or consistent with, ISAE 3000.

C. Project Objectives and How they Serve the Public Interest

Project Objectives

C.1 The objectives of this project are to:

- (a) Revise ISAE 3000: (i) to incorporate enhanced requirements and guidance in the light of relevant concerns raised by stakeholders 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; and
- (b) Consider whether, and if so to what extent, separate ISAEs applicable to all assurance engagements are needed to deal with topics such as planning, using the work of experts, and documentation.

How the Project Objectives Serve the Public Interest

Responding to the Needs of the Marketplace

C.2 The project objectives will serve the public interest by ensuring that the extensive and growing use of ISAE 3000 by professional accountants and NSS around the world as outlined above will be supported by a Standard that is up-to-date.

Clarity

C.3 As noted above, ISAE 3000 was not redrafted as part of the IAASB's Clarity Project. Proposed ISAE 3402⁵, however, was drafted in the clarity style. This discrepancy has necessitated a proposed amendment to the IAASB Preface⁶ to recognize the differing authority attaching to the two styles of ISAEs, which some practitioners and others may find confusing. A number of respondents to proposed ISAE 3402 noted their support for revising ISAE 3000 in the clarity style.

C.4 Further, as the Explanatory Memorandum to proposed ISAE 3402 noted: "*the IAASB believes that it is appropriate to use the clarity drafting conventions in drafting ISAEs, as it represents IAASB's view of the clearest way of presenting standards so as to distinguish requirements from guidance and promote consistent interpretation and performance by auditors.*"

⁵ Proposed ISAE 3402, "Assurance Reports on Controls at a Third Party Service Organization."

⁶ "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," issued in December 2007.

- C.5 The project objectives will serve the public interest by removing any confusion with respect to the authority of ISAEs and by promoting consistent interpretation and performance by practitioners.

Additional ISAEs Applicable to all Assurance Engagements

- C.6 When ISAE 3000 was introduced, the IAASB Handbook was restructured. This restructure included setting aside ISAE numbers 3001-3399 for the potential development of additional Standards applicable to all assurance engagements. It was envisaged then that at some time in the future this series may be used for *topic-specific* ISAEs dealing with, e.g., planning, using the work of experts, and documentation. These topics are currently dealt with in ISAE 3000 itself, but in a summarized form relative to how they are dealt with in the ISAs. It was thought that extended requirements and guidance on key topics may be necessary to promote consistency of practice with respect to evolving assurance engagements. Such a series would be in addition to ISAE numbers 3400-3999, which were set aside for *subject matter-specific* ISAEs dealing with, e.g., prospective financial information, controls at a service organization, sustainability reports, disclosures of emissions information, and compliance auditing.
- C.7 At that time (December 2003), the IAASB was unsure of the extent to which the ISAE 3001-3399 series would need to be populated in order for the Board to fulfill its mandate of setting standards in the public interest for assurance engagements beyond audits or reviews of historical financial information. It was expected that this matter would be reviewed when further experience had been obtained with the use of ISAE 3000 both by practitioners applying it, and by the IAASB and NSS referring to it in the development of subject matter-specific standards.
- C.8 Now that five years experience has been gained with the use of ISAE 3000, it is an appropriate time to consider whether, and if so to what extent, separate ISAEs are needed to deal with, e.g., planning, using the work of experts, and documentation. The project objectives will therefore serve the public interest by determining whether the summarized form in which extant ISAE 3000 is written is adequate to promote consistency of practice.

D. Outline of the Project

Project Scope

- D.1 The scope of this project is the revision of ISAE 3000.
- D.2 This project will also consider whether, and if so to what extent, separate ISAEs applicable to all assurance engagements are needed to deal with topics such as planning, using the work of experts, and documentation. If it is determined that such ISAEs are needed, an output of this project will be a recommendation as to how the IAASB should develop those ISAEs.
- D.3 This project may also result in conforming amendments to:
- (a) The Assurance Framework, although as noted in paragraph B.10 above, it should not entail revisiting conceptual matters settled at the time that Framework was issued; and
 - (b) Subject matter-specific ISAEs, e.g., the IAASB has already discussed the fact that a large number of paragraphs in proposed ISAE 3402 dealing with topics such as

planning, using the work of experts, and documentation, should be removed when ISAE 3000 is revised (or separate ISAEs on these topics are introduced).

Major Problems and Key Issues that will be Addressed

D.4 Matters expected to be dealt with include:

Revised and Redrafted ISAs

D.5 ISAE 3000 has not been revised since it was first approved in December 2003. Since that time, all ISAs have been redrafted in accordance with the clarity drafting conventions, and a number of significant ISAs upon which corresponding requirements in ISA 3000 are based have been revised, for example ISAs dealing with:

- communication with those charged with governance (ISA 260);
- planning (ISA 300);
- the audit risk model (ISAs 315 and 330);
- materiality (ISAs 320 and 450);
- written representations ((ISA 580);
- group audits (ISA 600);
- experts (ISA 620); and
- reporting (ISA 700 series).

D.6 This project will:

- (a) Consider what consequential changes to the requirements and guidance in ISAE 3000 are necessary due to the redrafting and revision of ISAs.
- (b) Apply the clarity drafting conventions to ISAE 3000.
- (c) Propose revisions to the Preface⁷ to articulate the authority attaching to ISAEs. This will include considering whether to create a similar structure for objectives as that for ISAs (where the objective of an audit of financial statements and the overall objective of the auditor are articulated separately and in addition to the objectives of individual ISAs).

Extent of Requirements

D.7 As noted in paragraphs C.6-C.8, when ISAE 3000 was first introduced, it was envisaged that a series of topic-specific ISAEs may be needed to deal with, e.g., planning, using the work of experts, and documentation. The underlying issue here is whether, for key topics, the summarized nature of requirements and guidance currently contained in ISAE 3000 is adequate to ensure a consistent understanding and quality of application. The inclusion of

⁷ Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.

summarized requirements and guidance implicitly assumes the practitioner is relatively *au fait* with the content of the ISAs from which the summaries are extracted. But as the ACCA has pointed out in their response to the Survey “*knowledge of ISAs can no longer be assumed (as audit exemption affects the profession).*”

- D.8 This matter has been discussed recently by the IAASB in the context of proposed ISAE 3402 and the proposed ISAE on Emissions Assurance. The Explanatory Memorandum to proposed ISAE 3402 noted that “*the IAASB is of the view that because the engagement seeks to provide reasonable assurance, and therefore is comparable to a financial statement audit, it would be desirable for the proposed ISAE, taken with ISAE 3000, to cover similar matters and at a similar level of detail to the ISAs to the extent practicable and relevant. Alternative ways to achieve this in the proposed ISAE include replicating or adapting relevant requirements from the ISAs when they are appropriate to the scope of the ISAE; or requiring that all ISAs be applied, adapted as necessary in the circumstances of the engagement. ... Further alternatives ... might be to amend ISAE 3000, or to draft further ISAEs dealing with such general matters as are likely to be relevant in all assurance engagements.*”
- D.9 While the Explanatory Memorandum did not seek explicit comment on the extent of requirements and guidance in ISAE 3000, or whether “*further ISAEs*” are needed, some respondents to the exposure draft nonetheless expressed strong views on the matter, e.g.: the CICA said: “*we feel that just as separate ISAs are needed to deal with these matters in the context of financial statement audits; there should also be separate ISAEs to deal each type of matter in the context of other assurance engagements,*” whereas the ACCA said “*we expressed concern that the IAASB would create a hugely detailed ISAE 3000 that would escalate the cost of assurance engagements and price professional accountants out of the small assurance market.*”
- D.10 This project will need to consider the extent to which it is “*practicable and relevant*” for ISAE 3000, or a series of topic-specific ISAEs “*to cover similar matters and at a similar level of detail to the ISAs.*”

Consultation Paper on Review Engagements

- D.11 In September 2008, the Consultation Paper “Matters to Consider in a Revision of International Standard on Review Engagements 2400, *Engagements to Review Financial Statements*” was released. It canvasses many fundamental issues about review engagements, such as:
- Is the concept of a “moderate level of assurance” meaningful for practitioners?
 - To achieve the objective of a review engagement, what factors influence the practitioner’s assessment of the work effort required to provide a reasonable basis for reporting the practitioner’s conclusion(s) ...?
 - Would the nature, timing and extent of review engagement procedures be significantly different between a review engagement based on performance of procedures without an explicit assessment of risk of misstatement ..., and a review engagement where a risk-based approach is applied to assess and respond to those risks?

- If the entity does not have internal controls that would prevent or detect occurrence of misstatements ..., what are the implications for the practitioner regarding the entity's internal controls for the purpose of the review?
- How can a practitioner effectively communicate the concept of a level of assurance that is less than high, as obtained in a review engagement, to the intended readers or users of a review report, so that they will be able to properly estimate the level of confidence they can associate with the review conclusion?

D.12 The resolution of such issues may be as significant for limited assurance engagements performed under ISAE 3000 as for reviews of financial statements. Therefore, in progressing this project, the Task Force will need to be mindful of IAASB discussions in relation to the Consultation Paper. One respondent to the Survey went so far as to suggest that in light of such issues, ISAE 3000 might best be divided into 2 separate documents, one that is aligned closely with the ISAs and deals with reasonable assurance engagements, and another that is aligned more closely with the ISREs and deals with limited assurance engagements. This suggestion should be considered by the Task Force.

Professional Accountants

D.13 ISAE 3000 states in paragraph 1 that its purpose “*is to establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice...*” It also includes a requirement to “*comply with the requirements of Parts A and B of the IFAC Code of Ethics for Professional Accountants.*”

D.14 Nonetheless, published reports by non-accountants, e.g., assurance reports regarding sustainability, have cited ISAE 3000. This has given rise to questions about whether non-accountants have sufficient understanding of the assurance concepts and processes implicitly embedded in ISAE 3000 to be able to perform an engagement in a way that is comparable to how a professional accountant would perform the same engagement. This is not to deny the expertise of other professionals in their chosen field, but rather to acknowledge that the current ISAE 3000 was written with a presumption that it would be applied by professional accountants who are assurance experts and who, as well as being trained in the concepts and processes underlying ISAE 3000, are subject to such measures as:

- Education and experience benchmarks for entry to the profession.
- Ongoing continuing professional development/life-long learning requirements.
- Competency requirements for providing particular services, e.g., International Education Standard for Professional Accountants (IES) 8, “Competence Requirements for Audit Professionals.”
- Performance standards for particular engagements (in the case of emissions assurance: ISAE 3000, or a more specific IAASB pronouncement if developed).
- Quality assurance policies and procedures implemented at both: (a) the engagement level, and (b) the firm level.
- External quality assurance review/inspection programs.

- A strong and detailed Code of Ethics founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.
- Stringent investigative and disciplinary processes.

D.15 This project will need to consider whether ISAE 3000 should be written from a perspective that contemplates its application by non-accountants. A separate but related issue that should also be considered is what responsibilities a professional accountant should have with respect to any conflict that might exist between ISAE 3000 and any other assurance standards or regulatory requirements that apply to the engagement.

D.16 These issues were discussed by the IAASB when considering the Emissions Assurance project at the December 2008 (Brussels) meeting. Further details are included in the extract from the Emissions Assurance Issues Paper attached as Appendix 2.

Conceptual Issues

D.17 A number of conceptual matters have been raised through the feedback mechanisms mentioned in Section B above. For example, confusion about the meaning of, and difference between, subject matter and subject matter information; and difficulty in identifying suitable criteria for all assurance engagements.

D.18 Having already considered, when approving the *IAASB Strategy and Work Program, 2009-2011*:

- (a) The nature of feedback received, which primarily relates to how to apply the concepts in particular circumstances, and
- (b) The extensive debate and due process that preceded approval of ISAE 3000 and the Assurance Framework in December 2003, including the publication of three exposure drafts (1997, 1999 and 2003) and a specially commissioned Study,⁸

the IAASB concluded that this project should “*not entail revisiting conceptual matters settled at the time of revising the International Framework for Assurance Engagements.*”⁹

D.19 It is expected, nonetheless, that this project will consider whether ISAE 3000 requires:

- more clearly articulated requirements and explanations;
- additional guidance; and
- further examples, including example reports,

to ensure reasonable consistency in understanding and application of such concepts. This may be particularly important with respect to the public sector and other regulated engagements like those to which the UK’s Standards for Investment Reporting apply.

⁸ IAASB, Study 1 “The Determination and Communication of Levels of Assurance Other than High” (2002).

⁹ “IAASB Strategy and Work Program, 2009-2011” Basis for Conclusions.

Other Issues

D.20 Other issues include consideration of the following:

- Not all topics dealt with in the ISA series that could be adapted for application to assurance engagements are dealt with explicitly in ISAE 3000. In particular, ISAE 3000 does not include any requirements or guidance with respect to “other information” (ISA 720). This project should consider whether all ISAs are appropriately reflected in ISAE 3000.
- A number of respondents to the Survey pointed out issues with respect to application of ISAE 3000 in the public sector. Particularly given the closer relationship the IAASB now has with INTOSAI than when ISAE 3000 was first published, and the frequency of compliance and performance audits in the public sector, it will be important to ensure that public sector issues are comprehensively considered in revising ISAE 3000.
- ISAE 3000 includes specific requirements and guidance on restricting the use of the assurance report in certain circumstance. Some respondents to proposed ISAE 3402 have raised this as an issue of concern with respect to service auditor’s reports. A number of the matters raised in that context will have generic application and should be considered by the ISAE 3000 Task Force.
- ISAE 3000.27 states: “This ISAE does not provide guidance with respect to using the work of an expert for engagements where there is joint responsibility and reporting by a practitioner and one or more experts.” This sentence is a reflection of the fact that at the time ISAE 3000 was issued, the IAASB was undecided whether joint reporting engagements should be allowed or not. The question of joint reporting engagements should be revisited as part of this project.
- The Explanatory Memorandum accompanying ED ISAE 3402 requested views on whether the ISAE 3000 should include a requirement, similar to that proposed in ED-ISAE 3402, to evaluate whether an external expert, whose work is to be used in an assurance engagement, has the necessary objectivity for the purposes of that engagement. This request arose from a likely change to the Code to specifically exclude external experts from the definition of engagement team.¹⁰ If this were to happen, external experts would not be subject to the Code, including its independence requirements. Most respondents that commented on this proposal agreed that if the definition in the Code were to be changed, ISAE 3000 should be revised to include a requirement to evaluate the objectivity of external experts.

Impact Assessment Considerations

D.21 The ACCA in its response to the Survey noted: “*While we see this as an opportunity to produce principles-based standards on a ‘think small first’ basis we also envisage the need for some highly detailed standards where the specific reasonable assurance engagement is carried out by auditors of public interest entities.*” The ACCA also “*expressed concern that*

¹⁰ The International Federation of Accountants’ Code of Ethics for Professional Accountants.

the IAASB would create a hugely detailed ISAE 3000 that would escalate the cost of assurance engagements and price professional accountants out of the small assurance market.”

- D.22 These comments indicate the difficulty of dealing with the issues identified in this Proposal in a way that balances the competing imperatives of the cost-benefit equations: the need for robust pronouncements that promote consistent quality on the one hand; and a practical and accessible approach that allows smaller practitioners in particular to continue to provide assurance services in a cost effective manner.
- D.23 The need for, and the nature and form of, any formal impact assessment in this project will be subject to the recommendations of the Task Force charged with undertaking the separate IFAC project on impact assessments. As part of the impact assessment for this project, consideration will be given to the need for field testing any proposals that the project Task Force may develop. In addition, and whether or not a formal impact assessment is undertaken, the project Task Force will need to take particular care to consult widely on the cost-benefit implications of proposed changes to ISAE 3000, and should consider alternative processes, such as publishing a Consultation Paper or holding a roundtable(s), to ensure an appropriately diverse range of stakeholders is actively engaged with the project as it progresses.

E. Implications for any Specific Persons or Groups

- E.1 The project has particular implications for the following:
- (a) National standards setters who have adopted ISAE 3000, or use it for purposes of comparison with their own standards.
 - (b) Public sector auditors who frequently undertake compliance and performance audits.
 - (c) Regulators who require assurance with respect to subject matters other than historical financial information.
 - (d) Consulting divisions of accounting firms who provide services that may fall within the definition of “assurance,” but who may not be familiar with the content of ISAE 3000.
 - (e) Non-accounting assurance providers.

F. Development Process, Public Consultation, Project Timetable and Project Output

Development Process and Public Consultation

- F.1 The project Task Force will need to closely liaise with other IAASB Task Force that are undertaking projects that affect, or will be affected by ISAE 3000; in particular, the Task Forces dealing with: ISRE 2400, ISAE 3402, Emissions Assurance, and the project to develop an ISAE on reporting on pro forma financial information in prospectuses.
- F.2 As mentioned above under “Impact Assessment Considerations,” the project Task Force should consider processes such as publishing a Consultation Paper or holding a roundtable(s) to ensure an appropriately diverse range of stakeholders is engaged with the project as it

progresses. Opportunities for such engagement within the tentative timetable below, which includes an extended exposure period of six month, could include, e.g., publication of a Consultation Paper based on the high level “directions” paper (September 2009), and roundtables during the exposure period (October 2010-March 2011). The Task Force will need to consider in detail the structure, content and format of any roundtables closer to the date, however, some adaptation of the model followed for the Emissions Assurance roundtables will likely be appropriate. That model involved holding a roundtable in each of Australasia, North America and Europe, with each roundtable having about 25-30 participants from a cross section of areas, such as: large and small accounting firms, non-accounting assurance providers, public sector auditors, information preparers, information users, regulators, and academics, Some adaptation of this model may be required because of the variety of subject matters that ISAE 3000 caters for, e.g., it may be appropriate to have streams within each roundtable that group certain subject matters together.

Project Timetable

F.3 The following tentative project timetable is proposed:

Project Stage	Timing
Approval of project proposal by IAASB	March 2009
High level “directions” paper	September 2009
Issues paper	March 2010
First read of exposure draft	June 2010
Approval of exposure draft	September 2010
Exposure period	October 2010-March 2011
Full review of exposure draft comments and first read post-exposure	September 2011
Approval of revised ISAE 3000	March 2012

Project Output

F.4 A revised and redrafted ISAE 3000; and, if it is determined that separate ISAEs applicable to all assurance engagements are needed to deal with topics such as planning, using the work of experts, and documentation, a recommendation as to how the IAASB should develop those ISAEs.

G. Resources Required

G.1 A geographically diverse project task force will be created, consisting of up to 5 individuals, including:

- 2 members (or a member and a TA) of the IAASB, one as chair.
- A public sector auditor.

- An individual with significant practical experience providing non-financial assurance services.
- An academic.

G.2 IAASB technical staff will provide support to the task force.

H. Relevant Sources of Information

H.1 Relevant sources of information include the following:

- Respondents to the Survey noted over 35 pronouncements issued by NSS in a variety of countries that are similar to ISAE 3000 or provide subject matter-specific assurance guidance.
- IAPC, “Report on the issues arising from exposure drafts of the International Standard on Assurance Engagements” (1999) and key related IAPC agenda papers.
- IAASB, Study 1 “The Determination and Communication of Levels of Assurance Other than High” (2002) and key related IAASB agenda papers.
- FEE, “Principles of Assurance: Fundamental Theoretical Issues with respect to Assurance in Assurance Engagements” (2003).
- FEE, “Selected Issues in Relation to Financial Statement Audits: Inherent Limitations, Reasonable Assurance, Professional Judgement and its Documentation, and Enforceability of Auditing Standards” (2008).
- GAO, “Government Auditing Standards.”

ISAE 3000 SURVEY FOR NATIONAL STANDARD-SETTERS AND IFAC MEMBER BODIES

Introduction

The IAASB staff is preparing a proposal to revise ISAE 3000 for consideration by the IAASB Steering Committee.

To ensure the proposal takes account of the views of key national standard-setters and IFAC member bodies, your response to the following questions would be much appreciated. The intention at this stage is to identify major issues only, so your answers need not be highly detailed – IAASB staff will follow up with requests for further details should that be necessary.

This survey is being sent to the national standard-setter(s) and assurance related member body(ies) in each country that attends the IAASB National Auditing Standard Setters meetings. In countries where this results in the survey being sent to more than one organisation (see attached list), you may choose to confer with each other and provide just one response for your country. This survey will also be sent to a number of others, for example, regional bodies, INTOSAI members, and large firms for input on questions 5-8 in particular.

It would be appreciated if you could please provide your answers to michaelnugent@ifac.org by Friday 28 November.

ISAE 3000

International Standard on Assurance Engagements 3000 “Assurance Engagements Other than Audits or Reviews of Historical Financial Information” deals with assurance engagements, other than audits or reviews of historical financial information covered by ISAs or ISREs, performed by professional accountants in public practice. It is also applicable to all professional accountants in the public sector who are independent of the entity for which they perform assurance engagements.

It covers: (a) both reasonable assurance engagements, and limited assurance engagements; and (b) both direct reporting engagement and assertion-based engagement. It includes standards and guidance on:

- Relationship with the Framework, Other ISAEs, ISAs and ISREs
- Ethical Requirements
- Quality Control
- Engagement Acceptance and Continuance
- Agreeing on the Terms of the Engagement
- Planning and Performing the Engagement
- Assessing the Appropriateness of the Subject Matter
- Assessing the Suitability of the Criteria

- Materiality and Assurance Engagement Risk
- Using the Work of an Expert
- Obtaining Evidence
- Representations by the Responsible Party
- Considering Subsequent Events
- Documentation
- Preparing the Assurance Report
- Assurance Report Content
- Qualified Conclusions, Adverse Conclusions and Disclaimers of Conclusion
- Other Reporting Responsibilities

Questions

1. Has your organisation issued:
 - (a) ISAE 3000; or
 - (b) A national equivalent to ISAE 3000 (i.e., a national standard or other pronouncement that covers similar material)? (If so, please include a copy or identify the URL where a copy can be found.)
2. If you answered yes to question 1(b), does your national equivalent differ from ISAE 3000 in any significant way? If yes, please describe the significant differences and the reasons therefor.
3. Has your organisation issued a subject matter-specific assurance pronouncement(s) for engagements other than audits or reviews of financial information (either historical or prospective), for example, assurance on internal control? (If so, please include a copy or identify the URL where a copy can be found.)
4. If you answered yes to question 3, does that pronouncement(s) contain any significant inconsistencies with:
 - (a) ISAE 3000? If yes, please describe the significant inconsistencies and the reasons therefore.
 - (b) A national equivalent to ISAE 3000? If yes, please describe the significant inconsistencies and the reasons therefore.
5. What is the general pattern of use of ISAE 3000 or its national equivalent by professional accountants in your jurisdiction (for example: is its use growing; is it used extensively; is it used for a wide array of subject matters; is it cited in regulations; is it used predominantly for one or two engagement types)? Please indicate the subject matters that are most commonly reported upon (and if possible, examples of some of the less common subject matters of which you are aware).
6. To your knowledge, are assurance pronouncements prepared for professional accountants (ISAE 3000 or its national equivalent, or a subject matter-specific assurance pronouncement(s))

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used in your jurisdiction by assurors who are not professional accountants? (If so, please include a copy of such an assurance report or identify the URL where a copy can be found.)

7. To your knowledge, are assurance pronouncements prepared for assurors who are not necessarily professional accountants, used in your jurisdiction by professional accountants? (If so, please include a copy or identify the URL where a copy can be found.)
8. Do you have any suggestions for the IAASB to consider when deciding:
 - (a) Whether or not to approve a project to revise ISAE 3000?
 - (b) The scope of the project, including particular issues that should or should not be included, if the scope of the project is it is approved?

**EXTRACT FROM ISSUES PAPER – EMISSIONS ASSURANCE
(AGENDA ITEM 6A, DECEMBER 2008)**

Issue

- D.1 To what extent, if at all, should an IAASB pronouncement be written from a perspective that contemplates its application by non-accountants?

Note: This question applies more broadly than to this project alone, but has particular resonance in the context of emission assurance where non-accountants are currently performing such engagements as well as professional accountants in public practice.

Background

- D.2 Unlike financial statement audit engagements, it is not uncommon for emissions assurance engagements to be undertaken by professional engineers or environmental scientists in their own right (i.e., not as part of a team lead by a professional accountant in public practice).
- D.3 When such an engagement is undertaken by a professional accountant, a multi-disciplinary team would invariably be assembled and the following requirements of ISAE 3000 will apply:

The practitioner should accept (or continue where applicable) an assurance engagement only if the practitioner is satisfied that those persons who are to perform the engagement collectively possess the necessary professional competencies. (Para 9)

When the work of an expert is used in the collection and evaluation of evidence, the practitioner and the expert should, on a combined basis, possess adequate skill and knowledge regarding the subject matter and the criteria for the practitioner to determine that sufficient appropriate evidence has been obtained. (Para 26)

The practitioner should be involved in the engagement and understand the work for which an expert is used, to an extent that is sufficient to enable the practitioner to accept responsibility for the conclusion on the subject matter information. The practitioner considers the extent to which it is reasonable to use the work of an expert in forming the practitioner's conclusion. (Para 30)

The practitioner should obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the assurance engagement. (Para 33)

- D.4 Various measures are taken to regulate the quality of services delivered by professional accountants in public practice. Such measures include those taken by IFAC member bodies in accordance with IFAC's Member Body Compliance Program and Statements of Membership Obligations.¹¹ Measures include:
- Education and experience benchmarks for entry to the profession.
 - Ongoing continuing professional development/life-long learning requirements.

¹¹ www.ifac.org/MediaCenter/files/Member_Body_Compliance_Program.pdf.

- Competency requirements for providing particular services, e.g., International Education Standard for Professional Accountants (IES) 8, “Competence Requirements for Audit Professionals.”
 - Performance standards for particular engagements (in the case of emissions assurance: ISAE 3000, or a more specific IAASB pronouncement if developed).
 - Quality assurance policies and procedures implemented at both: (a) the engagement level, and (b) the firm level.
 - External quality assurance review/inspection programs.
 - A strong and detailed Code of Ethics founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.
 - Stringent investigative and disciplinary processes.
- D.5 ISAE 3000 states in paragraph 1 that its purpose “*is to establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice...*” It also includes a requirement to “*comply with the requirements of Parts A and B of the IFAC Code of Ethics for Professional Accountants.*”
- D.6 Nonetheless, published reports by non-accountants, e.g., assurance reports regarding sustainability, have cited ISAE 3000. This has given rise to questions about whether non-accountants have sufficient understanding of the assurance concepts and processes implicitly embedded in ISAE 3000 to be able to perform an engagement in a way that is comparable to how a professional accountant would perform the same engagement. This is not to deny the expertise of other professionals in their chosen field, but rather to acknowledge that ISAE 3000 was written with a presumption that it would be applied by professional accountants who are assurance experts and who, as well as being trained in the concepts and processes underlying ISAE 3000, are subject to the measures noted in paragraph D.4 above
- D.7 A similar issue arises when language and concepts from ISAE 3000, and the IAASB’s assurance framework, are included in standards developed by other bodies that are aimed at application by both accountants and non-accountants. This includes, e.g., the concepts of reasonable and limited assurance, and inherent, control, and detection risk. The issue is compounded when such concepts are included in other standards without full explanation, or with different and possibly conflicting requirements. For example, the concepts of reasonable and limited assurance are included in one standard without any requirement for a negative expression of conclusion to convey limited assurance; and in another standard that requires the level of assurance to be considered when establishing materiality.

Discussion

- D.8 It was noted at the roundtables held in Australia that any emissions assurance standard produced by the Australian Auditing and Assurance Standards Board (AUASB) may be applicable to non-accountants as well as accountants, consistent with the AUASB’s mandate as a government instrumentality.

D.9 It was noted at the roundtable held in Canada that the legislation for the Alberta scheme specifically acknowledges that assurance engagements may be undertaken by either professional accountants or professional engineers.

D.10 PAP members offered a number of observations and suggestions on this issue, including:

- Whether or not an IAASB pronouncement is written for application by non-accountants, consultation with non-accountants while developing the pronouncement may lead to more consistency of approach between non-accountants and professional accountants.
- If an IAASB pronouncement were to be written for application by non-accountants as well as professional accountant, it would be necessary to include specific mechanisms to refer to, or even replicate in some way, certain of the measures noted in paragraph D.4. If, on the other hand, an IAASB pronouncement were to be written for application by professional accountants only, it would be necessary to clearly put readers on notice that this is the case.
- The IAASB should consider whether the assurance report should include disclosures about the competencies (both assurance competencies, and subject matter competencies) of those performing the engagement.
 - ISAE 3000 notes that “*the practitioner may expand the assurance report to include other information and explanations that are not intended to affect the practitioner's conclusion. Examples include: details of the qualifications and experience of the practitioner and others involved with the engagement ... Whether to include any such information depends on its significance to the needs of the intended users.*”
 - A financial statement audit report does not refer to experts used during the audit, nor does it include information about the expertise of the auditor with respect to auditing or financial reporting. It might be argued that the reason this is so is because it is generally accepted and understood by financial statement users that auditors are auditing and financial reporting experts, and that auditing standards require the auditor to bring to bear on the engagement any other expertise that may be relevant in the circumstances of the engagement, for example, actuarial expertise in the case of a life insurance entity.
 - In the case of emissions assurance engagements, it may be that many users are unfamiliar with the expected competencies of assurers, and with the requirements of assurance standards with respect to using the work of experts.
 - Disclosures about the competencies of those performing the engagement may be particularly important where emissions inventories are published voluntarily and the competency of assurers is unregulated.
- The IAASB should consider whether emissions assurance reports could be signed jointly by professional accountants (assurance experts) and subject matter experts. One possible way of ensuring “*those persons who are to perform the engagement collectively possess the necessary professional competencies*” is for accounting firms to form strategic alliances with firms of subject matter experts (in particular, engineers and

scientists). Such alliances are becoming evident in the market place, although the existence of such alliances does not necessarily mean that assurance reports will be jointly signed.

D.11 A separate but related issue is what responsibilities should a professional accountant have with respect to any conflict that might exist between an IAASB pronouncement and the requirements of another standard, or of an ETS or other scheme such as an emissions information registry, many of which have regulations or protocols that direct the assurer with respect to certain aspects of the engagement? An example of a potential conflict may be that ISO 14064-3 requires the practitioner to “*communicate the (assurance) plan to the client and the responsible party*”, and related guidance says the practitioner should confirm the plan with the client.¹² By way of contrast, ISA 300 says “*When discussing matters included in the overall audit strategy or audit plan, care is required in order not to compromise the effectiveness of the audit. For example, discussing the nature and timing of detailed audit procedures with management may compromise the effectiveness of the audit by making the audit procedures too predictable.*”¹³

D.12 The “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” states:

The IAASB’s pronouncements govern audit, review, other assurance and related services engagements that are conducted in accordance with International Standards. They do not override the local laws or regulations that govern the audit of historical financial statements or assurance engagements on other information in a particular country required to be followed in accordance with that country’s national standards. In the event that local laws or regulations differ from, or conflict with, the IAASB’s Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB’s Standards. A professional accountant should not represent compliance with the IAASB’s Standards unless the professional accountant has complied fully with all of those relevant to the engagement.

¹² ISO 14064-3:2006, “Greenhouse gases – Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions.”

¹³ ISA 300, “Planning an Audit of Financial Statements.”

COMMENTS BY TECHNICAL MANAGERS

The comments of Technical Manager from each technical area are required before this Project Proposal is considered by the board or committee proposing to undertake the project.

Technical Manager to the Compliance Advisory Panel

No comments

Signed: Sylvia Barrett

Date: February 4, 2009

Technical Manager to the Developing Nations Committee

Many developing nations have not moved towards convergence with ISAEs as yet so this project may not be as great a priority for them as continuing to converge with ISAs.

Signed: Sylvia Barrett

Date: February 4, 2009

Technical Manager to the IAESB

Signed: TBC

Date: _____

Technical Manager to IESBA

Signed: Jan Munro

Date: February 18, 2009

Technical Manager to the PAIB Committee

Signed: TBC

Date: _____

Technical Manager to the IPSASB

Signed: Stephanie Fox

Date: February 17, 2009

Technical Manager to the SMP Committee

We fully support this project provided it meets the needs of the SME marketplace – this demands that work in this area is coordinated and supported by appropriate evidence.

We do not wholly agree with paragraph C.1 (a)(i). We understand that the ICAEW has applied ISAE 3000 on four occasions and appears to have little difficulty in applying it. Indeed staff reports that its application became easier once they understood the way the concepts are meant to interact and that these concepts interact fairly effectively.

We note that paragraph D.12 states that “the Task Force will need to be mindful of IAASB discussions in relation to the Consultation Paper (Reviews).” However, we would encourage the IAASB to consider closely, simultaneously, and strategically coordinating the updating of all non-audit engagement standards (compilations, reviews, agreed-upon procedures and ISAE 3000 engagements) to the extent this is practicable. To do this well may also demand updating the Assurance Framework to factor in recent lessons learned with the aim of reducing complexity and

improving clarity. This sweeping exercise of updating should help ensure an optimal outcome, that being a range of pronouncements that support a comprehensive and consistent menu of engagements that meet user needs in a cost effective manner as well as allow the readers of the engagement reports to both fully understand the engagement and to appreciate the benefit of involvement of a professional accountant or firm.

Regarding paragraph D.15 we would discourage ISAE 3000 being written from a perspective that contemplates its application by non-accountants. The IAASB may not be able to restrict the use of its standards by non-accountants but it can help protect accountants from unfair competition, and in turn serve the public interest by helping ensure the quality of engagements, by specifying that those that use the standard satisfy certain pre-requisites along the lines set out in paragraph D.14.

The paper states that there are increasingly practitioners who are unfamiliar with ISAs. This is an acute issue for SMPs as exemplified in the UK's Professional Oversight Board November 2008 report on practical training for auditors in which it concluded that:

“The most significant profession wide issue, following increases in audit exemption thresholds, is the lack of availability of audit work in small audit firms to ensure trainees and audit staff can be provided with sufficient audit experience to achieve the audit qualification or to maintain competence at a reasonable cost once qualified.”

We suspect that this issue is increasingly becoming a global issue as the trend to introduce or increase audit thresholds continues. Hence, in updating ISAE 3000 we suggest that knowledge of ISAs should not be assumed. One could repeat relevant text from the ISAs or else simply cross reference relevant sections of ISAs.

We are not convinced that ISAE 3000 should include additional guidance in line with ISAs. We would encourage the IAASB to avoid the temptation to simply ‘import’ ISA material into the standard. To do so would be inappropriate since ISAE 3000 is a generic standard applicable to any subject matter not covered by a specific standard and allow either reasonable or limited assurance. In contrast, ISAs are written for specific subject matter information (annual accounts), a specific intended user (shareholders), and a specific type of assurance (reasonable), making it possible and appropriate to specify detailed engagement procedures. ISAE 3000 should rather contain guidance that is applicable to all assurance engagements other than audits or reviews and as such set out minimum, high level requirements. In sum, care need to be taken to avoid creating a complex standard that would escalate the cost of assurance engagements and price professional accountants out of the small assurance market.

Signed: Paul Thompson

Date: February 9, 2009

Technical Manager to the Transnational Auditors Committee

I have no comments to raise on the proposal – very thorough in its analysis and issues to be considered.

Signed: Barry Naik

Date: February 14, 2009