ISAE 3000 Assurance Engagements other than Audits or Reviews of Financial Statements—Issues and IAASB Task Force Proposals

A. Reasonable Assurance and Limited Assurance Engagements

Definition of Limited Assurance

1. The definition of *reasonable assurance* in the draft proposed ISAE 3000 is essentially the same as the extant International Framework for Assurance Engagements’ (the Framework) primary description of *reasonable assurance*. The definition of *limited assurance* differs, however, from the extant Framework’s primary description of limited assurance.

2. The primary description in the Framework, expressed in the form of a definition, is “An assurance engagement in which the practitioner plans to reduce engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner’s conclusion.” This definition focuses on the risk aspect of limited assurance.

3. The definition included at paragraph 8(a)(i) of the draft was developed by the Task Force following the discussion of limited assurance at the June IAASB meeting. It places less emphasis on risk, and more emphasis on procedures: “An assurance engagement in which the practitioner performs a set of procedures that are limited compared with those necessary in a reasonable assurance engagement but are planned to obtain a level of assurance that is meaningful to the intended users, and communicates the limited nature of the assurance obtained through a negative form of expression of the practitioner’s conclusion.”

4. Both definitions can be viewed as conceptually correct, with the choice being largely one of emphasis or rhetoric because, in fact, the level of assurance obtained is the converse of the reduction in engagement risk, and both of these are an expression of the strength (the combination of sufficiency and appropriateness) of the evidence obtained. Hence, assurance, risk, and evidence are just different perspectives of the same issue. Further, in an assurance engagement, procedures are not an end in themselves, but are performed in order to obtain assurance/reduce risk/obtain evidence. It is this that distinguishes an assurance engagement from an agreed-upon-procedures engagement, in which the focus is on reporting factual findings arising from the procedures, rather than considering the assurance obtained/risk reduced/evidence obtained.

Matter for IAASB Consideration

1. Does the IAASB prefer that the definition of limited assurance emphasize the level of engagement risk, or the procedures performed?

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1 *International Framework for Assurance Engagements*, paragraph 11
Planned level of assurance

5. The most fundamental distinction between a reasonable assurance engagement and a limited assurance engagement is, of course, the level of assurance the practitioner obtains. In writing the most recent version of draft, the Task Force has introduced the term “planned level of assurance” which recognizes this fundamental difference.

6. The planned level of assurance is defined in paragraph 8(k), and with respect to the limited assurance part of that definition in particular, is open to the same debate as mentioned above, i.e. whether it takes a risk oriented approach or a procedures oriented approach. The final definition used will reflect the IAASB’s discussion of this point.

7. Using the term planned level of assurance is helpful in simplifying the wording of the draft in that it allows sentences that apply equally to reasonable assurance engagements and limited assurance engagements, except for the different level of assurance obtained, to be worded quite simply, e.g., “The practitioner shall obtain an understanding of the subject matter and other engagement circumstances sufficient to design and perform procedures to obtain the planned level of assurance.”

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Matter for IAASB Consideration

2. Does the IAASB agree with the introduction of the term “planned level of assurance”?

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The Basic Work-flow

8. The basic work-flow to obtain reasonable assurance differs from that to obtain limited assurance. That difference can be summarized as depicted in the table on the next page.

9. One point in relation to the work-flow that has occupied considerable time in Task Force discussions is how to express the need for additional work if information comes to the practitioner’s attention that differs significantly from that on which the determination of planned procedures was based.

10. The Task Force has concluded that because the practitioner in a reasonable assurance engagement needs to reduce engagement risk to a level that is low enough to express a conclusion in the positive form, the appropriate trigger for performing additional procedures is the evaluation, after planned procedures have been performed, of whether the practitioner’s assessment of risks remains appropriate. If the assessed risk is higher than expected, the practitioner will need to respond to that additional risk by performing additional procedures. This is consistent with how this issue is handled in an audit of financial statements under ISAs.2

11. In the case of a limited assurance engagement, on the other hand, the work-flow is more direct and procedural, as is the trigger for performing additional procedures. That trigger is expressed in paragraph 42(c), which is based on the work the ISRE 2400 Task Force has done on this issue as discussed at the June 2010 IAASB meeting.

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### Initial steps

By and large, the same requirements apply to both types of engagement regarding engagement acceptance, pre-conditions, planning etc.

### Obtain an understanding

The same requirement applies to both types of engagement with respect to obtaining an understanding except that the practitioner in a reasonable assurance engagement is required to include in that understanding a consideration of internal control, which may not be needed in a limited assurance engagement (paragraph 37).

### Decide what to do

- **Reasonable Assurance**
  - (a) Based on that understanding, identify what could be incorrectly measured or evaluated, or incorrectly presented, and identify and assess the risks that the subject matter information may be materially misstated (para. 41(a)).
  - (b) Develop overall responses, and determine the nature, timing and extent of procedures that are clearly responsive to the assessed risks (part of para. 41(b)).

- **Limited Assurance**
  - Based on that understanding, determine the nature, timing and extent of procedures to be performed to obtain the planned level of assurance (para. 42(a)).

### Do it

- **Reasonable Assurance**
  - Implement overall responses and perform procedures (part of para. 41(b)).

- **Limited Assurance**
  - Perform procedures (para. 42(b)).

### Consider if need to do more

- **Reasonable Assurance**
  - Based on the procedures performed and the evidence obtained, evaluate whether the assessment of risks remains appropriate (para. 41(c)).

- **Limited Assurance**
  - “If the results of those procedures indicate that a material misstatement is likely to exist, (the practitioner shall) perform such additional procedures as are necessary in the practitioner’s professional judgment until:
    - (i) The practitioner is able to conclude that the affected item(s) are not likely to cause the subject matter information to be materially misstated;
    - (ii) The practitioner is able to conclude with reasonable assurance that the affected item(s) cause the subject matter information to be materially misstated, or
    - (iii) The practitioner determines that the practitioner is unable to form the conclusion in either (i) or (ii) above and that therefore a scope limitation exists.” (para. 42(c))

### Further steps

By and large, the same requirements apply to both types of engagement regarding accumulating errors, evaluating the sufficiency and appropriateness of evidence, forming the conclusion etc.
Matter for IAASB Consideration

3. Does the IAASB agree with the work-flow described above? In particular, does the IAASB agree with the different approaches for reasonable assurance and limited assurance engagements with respect to performing additional procedures when information has come to the practitioner’s attention that differs significantly from that on which the determination of planned procedures was based?

B. Other Issues

12. The other significant issues the Task Force would like to draw the IAASB’s attention to are set out below. The Task Force intends seeking the IAASB’s feedback on these issues during the paragraph-by-paragraph review of the draft proposed ISAE, rather than discussing them separately.

Non-accountants

13. At the June 2010 meeting, the IAASB discussed a Task Force proposal for ISAE 3000 to acknowledge that it is written for professional accountants, but to not attempt to limit its application to only professional accountants and their public sector equivalents, as does extant ISAE 3000. Rather, the proposal required that anyone who uses ISAE 3000 should:

   (a) Apply quality control and ethical standards that are at least as demanding as ISQC 1 and the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), respectively, and

   (b) Disclose which standards they have applied, and if they are not ISQC 1 and the IESBA Code, for the practitioner’s report to state that in the practitioner’s professional judgment those standards are at least as demanding as ISQC 1 and the IESBA Code.

14. Members expressed a wide range of views on this issue at the June meeting, and a straw poll that was conducted was inconclusive. It therefore appeared to the Task Force that an alternative approach needed to be explored.

15. The primary change in the draft prepared for this meeting relative to the position put to the June meeting is the removal of the requirement described in (b) above (see old paragraph 51(i) and (j) in the marked copy of the draft at Agenda Item 6-C).

16. The Task Force also considered requiring everyone who uses ISAE 3000 to comply with ISQC 1 and the IESBA Code on the basis discussed at the June meeting, i.e. “compliance with quality control and ethical standards that are at least as demanding as ISQC 1 and the IESBA Code would allow an assurer to claim compliance with ISQC 1 and the IESBA Code by default.” However, it was noted that this logic is not applied to auditors in the ISAs and it seemed less likely to find favor in the ISAE realm, where quality control and

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3 International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.”

4 The ISAs often refers to “ISQC 1 (or national requirements that are at least as demanding),” and uses the term “relevant ethical requirements” which is defined as “ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the International
ethical standards are likely to be more diverse than in financial statement auditing as GHG audits are likely to attract engineers and other professionals as assurers.

**Matter for IAASB Consideration**

4. Does the IAASB agree with how the draft addresses the issue of non-accountants using ISAE 3000?

**Split between ISAE 3000 and the ISAs**

17. At the June 2010 meeting, the IAASB discussed the proposal to use ISAE 3000 for all engagements where there is any doubt about which standards should apply, but to ensure that where historical financial information is included as anything other than an incidental part of the engagement, to apply the evidence-gathering procedures of the ISAs to that information.

18. The IAASB was uncomfortable with aspects of this proposal, in particular, a lack of precision around the meaning of “incidental” and “evidence-gathering procedures.”

19. The Task Force has therefore revised the draft to revert to the position in extant ISAE 3000, i.e. that this standard applies to assurance engagements other than audits or reviews of historical financial information (see deletion of old paragraphs 2, 9(b) and A14-A15 in the marked copy of the draft in Agenda Item 6-C).

**Matter for IAASB Consideration**

5. Does the IAASB agree with how the draft addresses the split between ISAE 3000 and the ISAs?

**Direct Engagements**

20. The extant ISAE 3000 and the Framework have very little material about direct engagements. Through discussion at the Task Force and the IAASB, much has been learned over the course of this project about the nature of direct engagements. The Task Force has attempted to capture the salient points and embed them in the current draft thereby clarifying some of the more significant implications of direct engagements, and better balancing the treatment of direct engagements versus attestation engagements in the ISAE. Examples include paragraphs: A6(b), A7, A12, A39, A88(b), and A104.

**Matter for IAASB Consideration**

6. Does the IAASB agree with how direct engagements have been addressed in the draft?