



**Meeting:** IAASB  
**Meeting Location:** New York  
**Meeting Date:** September 17-21, 2012

## Agenda Item 3

### Exposure Draft ISAE 3000 – Select Issues and Task Force Recommendations

#### Objectives of Agenda Item

1. To discuss respondents' comments on selected issues from the Exposure Draft of ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ED-3000).
2. To obtain the IAASB's input on the Task Force's proposed responses to these issues.

#### Task Force

3. The Task Force comprises the following:
  - William Kinney (Task Force Chair, IAASB Member)
  - Andrew Baigent (External member nominated by INTOSAI<sup>1</sup>)
  - Jean Blascos (IAASB Member)
  - Wolfgang Boehm (IAASB Technical Advisor)
  - Caithlin McCabe (IAASB Member)
  - Roger Simnett (Co-Chair, ISAE 3410 Task Force)

#### Activities since Last IAASB Discussion

4. The last IAASB discussion was in June 2012. Since then, the Task Force met via teleconference five times in July and August and held a physical meeting in August.

#### Structure and Content of this Paper

5. This Paper is structured as follows:
  - **Section I – Key Issues:**
    - Amendments to the definitions of reasonable assurance (RA) and limited assurance (LA) and associated new application material;
    - Clarifications of the work effort for RA and LA; and
    - Preliminary aspects of the practitioner's report.
  - **Section II – Other Issues**

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<sup>1</sup> International Organization of Supreme Audit Institutions

6. The Task Force deliberations have focused on the key issues outlined in Section I. The Task Force believes that resolution of these issues is fundamental to the successful completion of the project. In particular, the Task Force notes that changes to the key issues require extensive checks to ensure that they do not adversely affect the IAASB's other pronouncements. Accordingly, a delayed resolution of these issues may delay the IAASB's final approval.
7. The Task Force has also progressed drafting of the ISAE in other places as time has permitted. As such, and to assist the IAASB in focusing on the key issues, the clean and marked versions of ISAE 3000 (Agenda Items 3-A and 3-B) show, in yellow highlight, the paragraphs that have not been deliberated by the Task Force, and are not proposed for discussion at the IAASB's September 2012 meeting. These matters will be brought to the December 2012 IAASB meeting.<sup>2</sup>
8. Of particular note is that the Task Force has focused on the differences between RA and LA. The Task Force has not focused on the comments made on the material affecting direct engagements, as the Task Force believed further study and debate was needed at the Task Force level prior to discussion with the IAASB.
9. **The Task Force proposes to use the marked version (Agenda Item 3-B) for the discussion with the IAASB.**

#### **IAASB Decisions at June 2012 IAASB Meeting**

10. Paragraphs 10-11 below summarize the major decisions made by the IAASB at its June 2012 meeting.

#### *No Fundamental Changes to the Assurance Model*

11. 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. Nonetheless, concerns were expressed by a few IAASB members including whether an engagement where the practitioner determines the criteria to be applied is an assurance engagement, and whether the material regarding "suitable criteria" adequately describes the concept. Another IAASB member expressed concern about the definition of LA, noting that he did not believe the concept was adequately defined in ISAE 3000 or other LA standards. Further discussion on this topic, and the IAASB's deliberations on ISRE 2400,<sup>3</sup> resulted in the Task Force being asked to further reflect on the definition of LA, particularly whether practitioners could offer insight on how they address the challenges of LA.

#### *Direct Engagements*

12. The IAASB supported retaining direct engagements in ISAE 3000, noting that separating direct engagements would be inefficient and costly, and would deny the IAASB the opportunity to learn from public sector direct engagements. The IAASB suggested the following areas of focus:

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<sup>2</sup> The Task Force has made some amendments to these highlighted paragraphs where matters came to light during Task Force discussions. These amendments will be discussed, together with any remaining amendments from respondents' comments, at the December 2012 IAASB meeting.

<sup>3</sup> ISRE 2400, *Engagements to Review Historical Financial Statements*

- Independence when conducting direct engagement, in particular the need to co-ordinate with the International Ethics Standards Board for Accountants (IESBA);
- Presentation of the direct engagement material, for example whether alternative methods of presentation could assist in distinguishing direct from attestation engagements within ISAE 3000, although mixed views were expressed regarding how useful a columnar approach would be.

## Section I - Key Issues

### Issue 1 - Definitions of Reasonable and Limited Assurance

#### Background and Comments Received

13. ED-3000 defines RA and LA as:

*Reasonable assurance engagement—An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation of the underlying subject matter.*

*Limited assurance engagement—An assurance engagement in which the practitioner reduces 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. The practitioner’s conclusion is expressed in a form that conveys that, based on the procedures performed, nothing has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated. The set of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner’s professional judgment, meaningful to the intended users. The limited assurance report communicates the limited nature of the assurance obtained.*

14. Respondents’ comments on the definitions of RA and LA showed that the majority support both definitions,<sup>4</sup> although commentators suggested that the definition of RA should be linked to a “high but not absolute level of assurance”<sup>5</sup> and the definition of LA was too dependent on user needs, which may lead to inconsistent application.<sup>6</sup> 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 (see Issue 2 below).<sup>7</sup>

15. Other comments made included:

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<sup>4</sup> ACAG1, ACAG2, AGC, AGO, ASSIREVI, AUASB, CAASB-CICA, CMA, CNDCEC, DTT, DFSA, EFAA, GTI, HKICPA, HOTARAC, IBE-IRE, ICAP, ICPAS, IDW, IRBA, JICPA, Joseph Maresca, KPMG, LRQA, MIA, PAS, RSM, SAICA, IFAC SMP, UKNAO, WAO, ZICA

<sup>5</sup> AICPA, EYG, NBA, NOREA, IFAC SMP

<sup>6</sup> AICPA, EYG, FSR, GAO

<sup>7</sup> EFAA, FAR, FSR, NBA, NOREA

- The differences between RA and LA should be more than just a difference in engagement risk;<sup>8</sup>
- That LA should be driven by procedures, rather than evidence or a planned level of assurance;<sup>9</sup>
- 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;<sup>10</sup>
- That the concept of “plausibility” should be used for LA, as it is seen by a few commentators to better differentiate LA from RA,<sup>11</sup> or, alternatively that the terms “positive assurance” and “reserved affirmation” be used for RA and LA respectively.<sup>12</sup>

#### Task Force Response

16. At its June 2012 meeting, the IAASB asked the Task Force to further reflect on the definition of LA and particularly consider how practitioners address the challenges of LA under extant ISAE 3000.
17. The Task Force responded to both the IAASB’s and respondent’s comments by reviewing the definition of LA. The Task Force focused on improving the clarity of the definition by reordering and improving the definition (see Paragraph 8(a)(i)(b) of Agenda Item 3-B). The Task Force does not support the introduction of quantitative terms to the definition such as “high” for RA or “moderate” for LA. The Task Force noted that such terms may be misleading in some circumstances, and it was not ordinarily possible for a practitioner to assess the level of assurance in quantitative terms, and the determination of the level of assurance obtained requires professional judgment. The Task Force noted that further changes may, in some cases, be inconsistent with the IAASB’s brief for this Task Force. The Task Force proposes the following definitions for RA and LA (paragraph 8(a)(i) of Agenda Item 3-B):

Reasonable assurance engagement—An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner’s conclusion. The practitioner’s conclusion is expressed in a form that conveys the practitioner’s opinion on the outcome of the measurement or evaluation of the underlying subject matter.

Limited assurance engagement—An assurance engagement in which the practitioner reduces 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. ~~The practitioner’s conclusion is expressed in a form that conveys that, based on the procedures performed, nothing has come to the practitioner’s attention to cause the practitioner to believe the subject matter information is materially misstated.~~ The nature and extent ~~set~~ of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level

<sup>8</sup> ACCA, AGSA, AOB

<sup>9</sup> AOB, ISACA

<sup>10</sup> WAO

<sup>11</sup> AGBC, AGQ

<sup>12</sup> HKEX

of assurance that is, in the practitioner's professional judgment, meaningful to the intended users. The practitioner's conclusion is expressed in a form that conveys that, based on the procedures performed and the evidence obtained, nothing has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. The limited assurance report communicates the limited nature of the assurance obtained.

18. However, the Task Force agreed with critics who believed that elements of the definition of LA needed additional application material.. Such additional material would assist in differentiating RA and LA engagements and promote consistent application of the standard. Accordingly, the Task Force proposes to include:
- A new paragraph to illustrate some of the differences between RA and LA (paragraph A1a in Agenda Item 3-B). This paragraph illustrates how the nature and extent of procedures may vary between RA and LA and is adapted from the recently approved ISAE 3410.<sup>13</sup>
  - A revised paragraph dealing with the concept of “assurance that is meaningful to the intended users” (paragraph A2 in Agenda Item 3-B). The revisions to this paragraph provide greater clarity on the assurance that is acceptable for LA by inserting material from paragraph 48 of the extant Framework which emphasizes that such assurance “is likely to enhance the intended users’ confidence about the subject matter information to a degree that is clearly more than inconsequential.” The paragraph also now includes enhanced material on the factors that are relevant in determining what is meaningful assurance in a specific engagement. The Task Force has also clarified other related paragraphs that also deal with aspects of “meaningful” in relation to the required work effort (see Issue 2 below).
19. Regarding the other matters raised by respondents and highlighted in paragraph 14, the Task Force believes that:
- The additional requirements and application material highlighted in Issue 2 will assist in differentiating RA and LA engagements, including by reference to how the nature and extent of procedures may vary between RA and LA engagements;
  - Consistent with the IAASB's position adopted in ISRE 2400 and ISAE 3410, the Task Force believes that LA should be driven by evidence, rather than procedures. In particular, the Task Force noted that specifying procedures for LA, such as inquiry and analytical procedures, would likely not be appropriate in all LA engagements given the broad range of engagement circumstances in which ISAE 3000 may apply;
  - The labels “positive” (for RA) and “negative” (for LA) do not fully reflect the level of assurance obtained, and undermine the value of LA engagements;
  - The concept of “plausibility” is not appropriate for an international standard as the term can carry, in some circumstances, a sense of deceit, subterfuge, or superficiality. Equally, the term “reserved affirmation” would, in itself, require further definition as well as substantial amendments to the fundamental principles of the Framework.<sup>14</sup>

<sup>13</sup> ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

<sup>14</sup> *International Framework for Assurance Engagements*

### Matter for IAASB Consideration

1. Does the IAASB believe that the Task Force's proposals outlined above are responsive to the calls for additional material to better explain the definitions of LA and RA?

#### Issue 2 – Work Effort for Reasonable and Limited Assurance

##### Background and Comments Received

20. ED-3000 has a number of requirements that require a different “work effort,” that is, requirements that direct the practitioner to perform procedures, for RA and LA. For example, ED-3000 requires a risk assessment for RA but not for LA, and RA requires more persuasive evidence than LA to support the practitioner's conclusion.
21. Respondents<sup>15</sup> 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:
  - Amendments to the requirement that direct the practitioner in an LA engagement to perform additional procedures when issues which could result in possible material misstatements arise<sup>16</sup> (known as the “trigger”) — A particular concern was whether the wording in ED-3000 would force practitioners to perform procedures even when the risk of material misstatement is remote, due to the use of the phrase “If...the subject matter information may be materially misstated” in paragraph 42(c).
  - An improved understanding of the entity and the risks inherent in the engagement – A respondent also noted that LA should have a risk assessment to provide a link to engagement risk.<sup>17</sup>
  - Requiring an understanding of internal controls for a LA engagement — Many respondents<sup>18</sup> noted that an understanding of internal controls was needed for LA as well as RA, although it was noted that this should be at a high level, required only when relevant to the engagement<sup>19</sup> or be restricted to certain procedures, in keeping with the lower level of assurance embodied in LA.
  - Enhancing the description of the work effort required for a LA — Several respondents believed that the work effort and associated requirements and application material needed to be better distinguished between RA and LA. It was also noted that further elaboration of the work effort would aid in consistent application of the standard. Other respondents noted that examples of procedures would assist practitioners in distinguishing RA and LA.<sup>20</sup>

<sup>15</sup> ACAG, AGC, AGO, AGQ, AGSA, AUASB, CAASB-CICA, CGA, CMA, CNDCEC, DTT, DFSA, EYG, FAR, GTI, HKICPA, HOTARAC, IBR-IRE, ICAP, ICPAS, IRBA, JICPA, Joseph Maresca, NZAUASB, PAS, RSM, SAICA, IFAC SMP

<sup>16</sup> FAR, IDW, KPMG, SRA

<sup>17</sup> IRBA

<sup>18</sup> AGBC, AGC, AOB, CIPFA, CGA, CMA, CNDCEC, DFSA, FAR, FSR, HoTARAC, ICAEW, ICAP, ICPAS, Joseph Maresca, LRQA, MIA, NBA, NZAUASB, PWC, RSM, SAICA

<sup>19</sup> ASSIREVI, ICAP, SAICA, UKNAO, WAO

<sup>20</sup> EFAA, FSR, NZAUASB

22. These comments, taken in aggregate, indicate a broad belief that further effort is needed by the IAASB to distinguish RA and LA and to enhance the work effort requirements and guidance.

#### Task Force Response

23. The Task Force agreed with respondents that the work effort for RA and, particularly, LA requires further consideration by the IAASB in the context of ISAE 3000 as an umbrella standard for an engagement covering a broad range of subject matters. Accordingly, the Task Force is proposing a number of significant changes to the salient paragraphs (see paragraphs 37-42 of Agenda Item 3-B).
24. The key changes to these paragraphs are:
- Enhancing the “risk aware” approach for LA engagements when obtaining an understanding of the underlying subject matter and other engagement circumstances (see paragraph 37(b) of Agenda Item 3-B) – this was achieved by amending the requirement so that practitioners need to develop an understanding sufficient to enable the practitioner to identify areas where material misstatements have a greater than acceptable level of risk in the engagement circumstances of occurring. Further, the Task Force restructured the requirements to provide a more logical flow for both RA and LA;
  - Requiring, for LA, that the practitioner consider the process used to prepare the subject matter information (see paragraph 37a(b) of Agenda Item 3-B). In proposing this requirement, the Task Force believes that this will enable practitioners performing LA engagements to be better informed about how the measurer/evaluator prepared the subject matter information, without requiring a full understanding of internal control relevant to the engagement as is required for RA.
  - Refocusing the “trigger” for additional procedures (see paragraph 42(c) of Agenda Item 3-B) – the Task Force noted that the key to the definition of LA (quoted in paragraph 12 above) is the notion that the risk of material misstatement must be acceptable in the circumstances. Accordingly, the Task Force proposes to redraft the trigger so that the requirement to perform additional procedures occurs when the practitioner becomes aware of a matter(s) that causes the practitioner to believe that the risk of material misstatement is not at an acceptable level in the engagement circumstances. The Task Force also aligned the identification of risks and responses across paragraphs 37, 41 and 42.
  - Clarified the point at which the additional procedures, performed when the practitioner believes that the risk of material misstatement is not at an acceptable level in the engagement circumstances, are able to be ended. The Task Force notes that the construction used in Agenda Item 3-B is “...perform additional procedures to obtain further evidence until the practitioner is able to...” rather than “...perform additional procedures sufficient to enable the practitioner to...” as used in ISAE 3410, as the Task Force believed that this would avoid confusion in a broad range of limited assurance engagement circumstances compared to sufficient appropriate evidence in a reasonable assurance engagement.

**Matter for IAASB Consideration**

2. What are the IAASB's views on the improvements made to the work effort required for RA and LA? Are there any other changes that should be considered by the Task Force?

*Issue 3 – Preliminary Aspects of the Practitioner's Report*

Background and Comments Received

25. 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 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.

Summary of work performed

26. A significant majority<sup>21</sup> 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<sup>22</sup> 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) of Agenda Item 3-B that, for LA, an appreciation of the nature, timing, and extent of procedures performed is essential to understanding the assurance conveyed by the practitioner's conclusion.
27. 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 assurance report, views were more varied. While a majority did not believe further requirements were needed,<sup>23</sup> several respondents<sup>24</sup> believed an illustration of the summary of procedures was needed to demonstrate the IAASB's intention. However, many respondents,<sup>25</sup> 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. Still others expressed the view that the practitioner's report should detail the procedures that would have been undertaken in an RA engagement.<sup>26</sup>
28. The Task Force agreed to continue to use the summary of work performed in the practitioner's report. In debating the issue, the Task Force agreed with respondents who noted that providing a summary of work performed assists users to understand the level of assurance obtained by the practitioner. By providing a summary, rather than a list of procedures and results, it also avoids

<sup>21</sup> ACAG, ACCA, AGBC, AGC, AGO, AGQ, AGSA, AOB, ASSIREVI, CAASB-CICA, CIPFA, CGA, CMA, CNDCEC, DTT, DFSA, EFAA, EYG, FAR, FEE, FSR, GAO, HKICPA, HoTARAC, IBE-IRE, ICAEW, ICAP, ICPAS, IDW, IRBA, ISACA, JICPA, J. Maresca, KPMG, LRQA, MIA, NBA, NOREA, NZAUASB, PAS, PWC, SAICA, IFAC SMP, UKNAO, WAO, ZICA

<sup>22</sup> AICPA, AUASB, GTI

<sup>23</sup> ACCA, AGO, AQC, ASSIREVI, CAASB-CICA, CGA, CMA, CNDCEC, DTT, DFSA, EFAA, EYG, FAR, FEE, HOTARAC, IBR-IRE, ICAEW, ICAP, IDW, IRBA, JICPA, KPMG, LRQA, NBA, NOREA, PWC, WAO, ZICA

<sup>24</sup> ACAG, AGBC, AICPA, ACCA, CAASB-CICA, CMA, DTT, EYG, FAR, IRBA, IFAC SMP

<sup>25</sup> AGBC, AICPA, AUASB, CAASB-CICA, DTT, EYG, FAR, GTI, HKIPCA, ICPAS, IRBA, ISACA, MIA, NZAUASB, PAS, SAICA

<sup>26</sup> ICAEW, NBA, NOREA, NZAUASB

misleading users that it is their responsibility to draw their own conclusion. However, the Task Force also agreed with respondents who noted that further guidance was needed and, accordingly:

- Amended paragraph A152 (see of Agenda Item 3-B) to 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 because the practitioner’s required understanding and assessment of risks of material misstatement are less than in a RA engagement.
- Added new guidance material (paragraph A152a of Agenda Item 3-B, derived from ISAE 3410) that highlights factors to consider in determining the level of detail to be provided in the summary of the work.

#### The “health warning”

29. In relation to the “health warning” that LA engagements provide more limited assurance than RA engagements, a majority<sup>27</sup> supported the IAASB’s position that a statement should be included in LA assurance reports to the effect that LA engagements are more limited than RA engagements. 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;<sup>28</sup> that users would not appreciate the significance of the statement;<sup>29</sup> that a list of omitted procedures would be needed to make the statement meaningful;<sup>30</sup> or that the statement may lead users into believing that a lower level of assurance has been obtained than is the case.<sup>31</sup>
30. The Task Force supported the “health warning” that LA engagements are more limited than RA engagements, agreeing with respondents that it was needed to avoid users overestimating the level of assurance provided. The Task Force, however, did see merit in enhancing the statement itself, although the Task Force could not agree on what form it should take. The two proposals (see paragraph 60(k) of Agenda Item 3-B) are:

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<sup>27</sup> ACAG, AGBC, AGC, AGO, AGQ, AGSA, AICPA, AOB, ASSIREVI, AUASB, CAASB-CICA, CIPFA, CGA, CMA, CNDCEC, DTT, DFSA, EYG, FAR, FEE, FSR, GTI, HKICPA, HoTARAC, IBR-IRE, ICAP, ICPAS, IDW, IRBA, JICPA, J. Maresca, KPMG, MIA, NZAUASB, PAS, PWC, RSM, SAICA, IFAC SMP, UKNAO, ZICA

<sup>28</sup> ACCA

<sup>29</sup> EFAA, NBA, NOREA,

<sup>30</sup> ICAEW, NBA, NOREA,

<sup>31</sup> LRQA, SRA

Option 1 – Based on ED-3000	Option 2 – Based on ISAE 3410.76(h)(ii)
<p>In a limited assurance engagement, the summary of the work performed shall state that:</p> <ul style="list-style-type: none"> <li>• The practitioner’s procedures are limited compared to a reasonable assurance engagement, and consequently they do not enable the practitioner to become aware of all significant matters that might be identified in a reasonable assurance engagement.</li> <li>• As a result, the level of assurance obtained in a limited assurance engagement is lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.</li> </ul>	<p>In a limited assurance engagement, the summary of the work performed shall state that:</p> <ul style="list-style-type: none"> <li>• The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement.</li> <li>• Consequently, the level of assurance obtained in a limited assurance engagement is lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.</li> </ul>

The form of the practitioner’s conclusion

31. Finally, in relation to the form of the practitioner’s conclusion, the majority<sup>32</sup> of respondents supported the IAASB’s use of the negative form of conclusion. Opponents of the negative form of conclusion<sup>33</sup> highlighted that it did not convey the value of the engagement, that it was confusing or subjective, and some preferred a positive form of opinion such as “taking into account the limitations of a LA engagement, we believe that the subject matter information presents fairly, in all respects, (or give a true and fair view)...” or “Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the subject matter information requires material amendment to be in accordance with the criteria”.<sup>34</sup> Another alternative suggested was “Based on our procedures, we are not aware of any material amendments that need to be made to the subject matter information for it to be in accordance with the applicable criteria.”<sup>35</sup> A respondent<sup>36</sup> supported the negative form of conclusion, but also that the conclusion should be

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<sup>32</sup> AGBC, AGM, AGQ, AGSA, AICPA, AOB, ASSIREVI, AUASB, CAASB-CICA, CIPFA, CMA, CNDCEC, DTT, EYG, FAR, FEE, GAO, GTI, HKICPA, HoTARAC, IBR-IRE, ICAEW, ICAP, ICPAS, IRBA, JICPA, KPMG, LRQA, MIA, NZAUASB, PAS, PWC, RSM, SAICA, IFAC SMP, UKNAO, WAO, ZICA

<sup>33</sup> ACCA, CGA, DFSA, EFAA, IDW, NBA

<sup>34</sup> NBA, NOREA

<sup>35</sup> FEE, IDW

<sup>36</sup> FEE

simple, clear and use non-technical language and, accordingly, the IAASB should avoid conclusions containing a double-negative.<sup>37</sup>

32. Respondents<sup>38</sup> also noted that, while paragraph 59 of ED-3000 mentioned the concept of an emphasis of matter, there were no requirements or application material to support this concept.
33. The Task Force recommends various amendments to the reporting requirements to address these comments including:
  - Adding a requirement and application material (see paragraphs 60(l)(iii) and A158a of Agenda Item 3-B) that the conclusion should be phrased using appropriate words for the subject matter and criteria;
  - Developed or enhanced application material (see paragraphs A156a and A157 of Agenda Item 3-B) to provide example conclusions for both RA and LA;
  - Inserting a requirement that, when the practitioner expresses a modified conclusion, the assurance report shall contain an appropriate heading (see paragraphs 60(l)(iv) and A158b of Agenda Item 3-B); and
  - Adding material to address both emphasis of matter and other matter paragraphs, drawn in part from ISRE 2400 and ISAE 3410 (see paragraphs 59 and 63a of Agenda Item 3-B).
34. In relation to the double-negative conclusions, the Task Force notes that the application material in paragraph A157 of Agenda Item 3-B contains example of conclusions both with and without the double-negative, thus indicating the flexibility that it possible under ISAE 3000.
35. The Task Force notes that further reflection on the assurance reports in ISAE 3000 will be required when considering the comments on the ED-3000 proposals in respect of direct engagements. The Task Force is also cognizant of the need to consider whether, and how, to illustrate the application of the reporting requirements of ISAE 3000. The Task Force believes that, in part, the guidance in A156-A159b, which incorporates some of the LA conclusions suggested by respondents, will assist practitioners in understanding these requirements.

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<sup>37</sup> A double negative in a conclusion is, for example “Based on our work described in this report, nothing has come to our attention that causes us to believe that the measurer’s or evaluator’s statement that internal control is effective, in all material respects, based on XYZ criteria, is not fairly stated.”

<sup>38</sup> AGSA, CNDCEC, FEE, FSR, IFAC SMP

**Matters for IAASB Consideration**

3. In relation to the Task Force's proposals:
- (a) Does the IAASB support the additional guidance material on the summary of work performed as the basis for the practitioner's conclusion? What other material could be provided?
  - (b) Which of the proposed statements in paragraph 30 above does the IAASB support? Why?
  - (c) What are the IAASB's views on the additional application material regarding the form of the practitioner's conclusion?

**Section II – Other Issues**

36. In addition to the key issues outlined in Section I, the Task Force has identified and responded to various other issues raised by respondents. These include the relationship with the Framework, changes to definitions, the removal of the terms "substantive procedures" and "tests of controls."

*Issue 4 - Relationship with the Framework*

37. A respondent<sup>39</sup> 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."
38. The Task Force noted that ISAE 3000 must be able to stand alone, and should not require practitioners to read the Framework itself as practitioners are required to have "assurance skills and techniques" (see paragraph 27 of Agenda Item 3-B). 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 revised paragraph 4 and introduced new paragraphs 4a-4c to describe the scope of ISAE (see Agenda Item 3-B).

**Matters for IAASB Consideration**

4. Does the IAASB agree with the Task Force's proposal to include the scope of ISAE 3000 in ISAE 3000, rather than in the Framework?

*Issue 5 - Definitions*

39. Other than the comments above regarding the definitions of LA and RA, respondents also made a variety of comments regarding the definitions in paragraph 8. Some of these were editorial in nature, while others involved more substantive matters such as enhancing the definition of "intended users" or simplifying the definition of a "practitioner". Accordingly, the Task Force has made several changes to the definitions in paragraph 8 of Agenda Item 3-B to clarify the definitions or enhance material already present in the definitions.

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<sup>39</sup> ICAEW

**Matter for IAASB Consideration**

5. Does the IAASB agree with the amended definitions?

*Issue 6 - Substantive Procedures and Tests of Controls*

40. While certain respondents, by inference, supported the use of the terms “substantive procedures” and “tests of control,” a respondent<sup>40</sup> noted that these terms were not defined in ED-3000, and the definitions in the Glossary<sup>41</sup> were not appropriate for engagements other than those involving historical financial information. The Glossary includes the following definitions:

“Substantive procedure—An audit procedure designed to detect material misstatements at the assertion level. Substantive procedures comprise:

- (a) Tests of details (of classes of transactions, account balances, and disclosures); and
- (b) Substantive analytical procedures.”

“Tests of controls—An audit procedure designed to evaluate the operating effectiveness of controls in preventing, or detecting and correcting, material misstatements at the assertion level.”

41. The Task Force noted that both Glossary definitions use the term “audit” which is not appropriate for assurance engagements other than audits or reviews of historical financial information. In relation to the term “assertions”, the Task Force noted that, while many engagements would have assertions, the Task Force was reluctant to require that procedures in an LA engagement address risks at the assertion level. Accordingly, the Task Force resolved to replace the references to “substantive procedures” and “tests of controls” with appropriate alternatives throughout ISAE 3000 to avoid confusion (see, for example, paragraphs 41 and A13 of Agenda Item 3-B).

**Matter for IAASB Consideration**

6. Does the IAASB support the removal of the terms “substantive procedures” and “tests of controls” from ISAE 3000?

*Issue 7 - Minor Amendments and Editorial Comments*

42. Respondents also made comments of a minor or editorial nature. While not all of these have been processed yet, the Task Force has made a number of changes where appropriate. For example:
- Paragraph A17 has been amended to note that the procedures in an agreed-upon procedures engagement are agreed with the engaging party and any appropriate third parties, as a respondent<sup>42</sup> believed that this may not be clear to a practitioner who is not a professional accountant.

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<sup>40</sup> IDW

<sup>41</sup> *Glossary of Terms*

<sup>42</sup> GTI

- The application material on professional skepticism has been improved by adding “conditions that may indicate possible misstatement due to error or fraud” to the list of matters to which the practitioner should be alert, as requested by a respondent.<sup>43</sup>
- Enhancing the structure of paragraph A94 that lists types of assurance procedures, and adding introductory material that explains that these procedures may be used for different purposes.

### **Way Forward**

43. The Task Force will present a review of the remaining comments and a full draft of proposed ISAE 3000 (Revised) at the December 2012 IAASB meeting.

### **Material Presented**

Agenda Item 3-A	Proposed ISAE 3000 (Clean)
Agenda Item 3-B	Proposed ISAE 3000 (Marked)

### **Action Requested**

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

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<sup>43</sup> IRBA

<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 Body (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 (5)</b>		
21.	AOB	Audit Oversight Board (Malaysia)
22.	EBA	European Banking Authority
23.	DFSA	Dubai Financial Services Authority

24.	IRBA	Independent Regulatory Board for Auditors
25.	IOSCO	International Organization of Securities Commissions
<b>National Auditing Standard Setters (4)</b>		
26.	APB	Auditing Practice Board
27.	AUASB	Australian Auditing and Assurance Standards Board
28.	CAASB	Canadian Auditing and Assurance Standards Board
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